## IMPORTANT

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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



**CITIC RESOURCES HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

(Stock Code: 1205)

# MAJOR TRANSACTION

# ACQUISITION AND INCREASE OF INTEREST IN MACARTHUR COAL LIMITED

21 September 2007

# CONTENTS

## DEFINITIONS

*Unless the context otherwise requires, the following terms and expressions used in this circular shall have the following meanings:*

| | |
|---|---|
| "Acquisition" | the acquisition of the Macarthur Sale Shares by CACL from Talbot Group pursuant to the Share Purchase Agreement |
| "associates" | has the meaning ascribed to it under the Listing Rules |
| "ASX" | the Australian Securities Exchange |
| "CA" | CITIC Australia Pty Limited, a company incorporated in the State of Victoria, Australia with limited liability and a direct wholly-owned subsidiary of CITIC Group |
| "CACL" | CITIC Australia Coal Pty Limited, a company incorporated in the State of Victoria, Australia with limited liability and an indirect wholly-owned subsidiary of the Company |
| "CITIC Group" | CITIC Group, a state-owned enterprise incorporated in, and under the direct supervision of the State Council of, the PRC |
| "Company" | CITIC Resources Holdings Limited, a company incorporated in Bermuda with limited liability and whose Shares are listed on the Stock Exchange |
| "connected person" | has the meaning ascribed to it under the Listing Rules |
| "Coppabella and Moorvale Joint Venture" | an unincorporated co-operative joint venture which operates the Coppabella and Moorvale coal mines in the State of Queensland, Australia |
| "Directors" | the directors of the Company |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Kazakhstan Business" | the operation of oil and oil related businesses and activities in Kazakhstan including but not limited to the development and production of oil at the Karazhanbas oilfield in Kazakhstan by JSC Karazhanbasmunai, Argymak TransService LLP and Tulpar Munai Services LLP |
| "Keentech" | Keentech Group Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of CITIC Group |

| | |
|---|---|
| "Last ASX Trading Day" | 2 July 2007, being the trading day on the ASX on which the Share Purchase Agreement was entered into between CACL and Talbot Group |
| "Latest Practicable Date" | 19 September 2007 |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Macarthur Coal" | Macarthur Coal Limited, a company incorporated in Australia with limited liability and whose shares are listed on the ASX |
| "Macarthur Sale Shares" | 15,683,735 existing fully paid Macarthur Shares |
| "Macarthur Shares" | ordinary shares in the share capital of Macarthur Coal |
| "PRC" | the People's Republic of China (for the purpose of this circular only, excluding Hong Kong, the Macau Special Administrative Region and Taiwan) |
| "Sale Price" | the price of A$7.20 (HK$43.92) per Macarthur Sale Share |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share Purchase Agreement" | the share purchase agreement dated 2 July 2007 signed between CACL and Talbot Group in respect of the Acquisition |
| "Shareholders" | holders of Shares from time to time |
| "Shares" | ordinary shares of HK$0.05 each in the share capital of the Company |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Talbot Group" | Talbot Group Investments Pty Limited, a company incorporated in Australia with limited liability |

| | |
|---|---|
| ”A$” | Australian dollars, the lawful currency of Australia |
| “HK$” | Hong Kong dollars, the lawful currency of Hong Kong |
| ”US$” | United States dollars, the lawful currency of the United States of America |
| “%” | per cent |

*In this circular, amounts in US$ and A$ respectively have been converted into HK$ or vice versa at the rate of US$1=HK$7.8 and A$1=HK$6.1 respectively for illustration purposes only. No representation is made that any amounts in US$, A$ or HK$ have been or could have been or can be converted at the above rates or at any other rates or at all.*

# CITIC RESOURCES HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*
(Stock Code: 1205)

*Executive Directors:*
Mr. KONG Dan *(Chairman)*
Mr. MI Zengxin *(Vice Chairman)*
Mr. SHOU Xuancheng *(Vice Chairman)*
Mr. SUN Xinguo *(President and Chief Executive Officer)*
Ms. LI So Mui
Mr. QIU Yiyong
Mr. ZENG Chen
Mr. ZHANG Jijing

*Non-executive Directors:*
Mr. MA Ting Hung
Mr. TANG Kui
Mr. WONG Kim Yin (Alternate to Mr. Tang Kui)

*Independent Non-executive Directors:*
Mr. FAN Ren Da, Anthony
Mr. NGAI Man
Mr. TSANG Link Carl, Brian

*Registered Office:*
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Head Office and Principal Place of Business:*
Suites 3001-3006
30/F, One Pacific Place
88 Queensway
Hong Kong

21 September 2007

*To Shareholders*

Dear Sir or Madam,

## MAJOR TRANSACTION

## ACQUISITION AND INCREASE OF INTEREST IN MACARTHUR COAL LIMITED

## INTRODUCTION

Reference is made to the announcement of the Company dated 3 July 2007 in respect of the Acquisition.

On 2 July 2007, CACL, an indirect wholly-owned subsidiary of the Company, agreed to purchase 15,683,735 existing fully paid Macarthur Shares from Talbot Group. Completion of the Acquisition occurred on 6 July 2007 and CACL increased its shareholding in Macarthur Coal from 11.62% to 19.99% of the total Macarthur Shares in issue as at the Last ASX Trading Day.

Macarthur Coal is a public company listed on the ASX and is involved in operation, exploration, development and mining activities in the Bowen Basin in the State of Queensland, Australia.

The aggregate consideration paid by CACL to Talbot Group in respect of the purchase of the Macarthur Sale Shares is A$112,922,892 (HK$688,829,641.20).

The Acquisition constitutes a major transaction for the Company under the Listing Rules and was conditional upon the approval of Shareholders. As no Shareholder is required to abstain from voting if the Company were to convene a special general meeting to approve the Acquisition, this condition was satisfied by way of a written approval from Keentech and CA pursuant to Rule 14.44 of the Listing Rules. Keentech and CA are wholly-owned subsidiaries of CITIC Group and together constitute a closely allied group of Shareholders holding more than 50% of the nominal value of securities of the Company giving the right to attend and vote if a special general meeting of the Company were to be convened to approve the Acquisition. Keentech and CA are the registered and beneficial holders of 1,990,180,588 Shares and 750,413,793 Shares respectively. The total number of Shares in issue was 5,256,684,381 as at the Latest Practicable Date. No special general meeting of the Company will be convened in respect of the Acquisition.

The main purpose of this circular is to provide Shareholders with information relating to the Acquisition and Macarthur Coal.

## PRINCIPAL TERMS OF THE SHARE PURCHASE AGREEMENT

### Date

2 July 2007

### Parties

(1) CACL

(2) Talbot Group

### Acquisition of Macarthur Sale Shares

Pursuant to the Share Purchase Agreement, CACL shall purchase the Macarthur Sale Shares from Talbot Group.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, Talbot Group, and its ultimate beneficial owners, are third parties independent of the Company and connected persons of the Company.

### Macarthur Sale Shares

15,683,735 existing fully paid Macarthur Shares, representing 8.37% of the total Macarthur Shares in issue on the Last ASX Trading Day.

**Sale Price**

A$7.20 (HK$43.92) per Macarthur Sale Share and which was paid in cash to Talbot Group at completion of the Acquisition.

The Sale Price represents (i) a premium of 6.19% to the closing price of A$6.78 (HK$41.36) per Macarthur Share as quoted on the ASX on the Last ASX Trading Day; (ii) a premium of 5.11% to the average closing price of A$6.85 (HK$41.79) per Macarthur Share as quoted on the ASX for the five trading days immediately prior to and including the Last ASX Trading Day; and (iii) a premium of 6.98% to the average closing price of A$6.73 (HK$41.10) per Macarthur Share as quoted on the ASX for the ten trading days immediately prior to and including the Last ASX Trading Day.

The Sale Price was agreed following arm's length negotiations between CACL and Talbot Group.

The aggregate Sale Price of A$112,922,892.00 (HK$688,829,641.20) was financed from internal resources of the Group.

Each of CACL and Talbot Group was responsible for its own costs and expenses incurred in respect of the Acquisition.

**Completion of the Acquisition**

Completion of the Acquisition took place on 6 July 2007.

## INFORMATION ON THE COMPANY

The Company is a diversified energy and natural resources investment holding company and is CITIC Group's flagship resources vehicle and the only listed subsidiary of CITIC Group engaged in oil and gas investments. Through its subsidiaries, the Company has interests in oil, aluminum smelting, coal mining, import and export of commodities, and manganese mining and processing.

## INFORMATION ON TALBOT GROUP

Talbot Group is a Queensland owned and operated investment group focusing on the resources sector with an asset base in excess of A$450,000,000 (HK$2,745,000,000). Its activities include minerals exploration, mine and market development and financial investments as well as a substantial property and share portfolio.

## INFORMATION ON MACARTHUR COAL

Macarthur Coal is a public company listed on the ASX.

It is involved in operation, exploration, development and mining activities in the Bowen Basin in the State of Queensland, Australia. Macarthur Coal's principal product is low volatile pulverized coal injection ("**PCI**") coal for use in the production of steel. Macarthur Coal is a key supplier of low volatile PCI coal to steel mills in Asia, Europe and the Americas, providing about 44% of the low volatile PCI coal exported from Australia.

Macarthur Coal has interests in two open-cut coal mines, the Coppabella Mine and the Moorvale Mine and plans to develop up to five new mines in Australia by 2010. The projects proposed for development are Olive Downs Open-cut Project, Moorvale Underground Project, Moorvale West Project, Vermont East/Wilunga Project and Burton West and North Underground Project.

The consolidated net profits of Macarthur Coal (both before and after taxation and extraordinary items) for the two financial years immediately preceding the date of the Share Purchase Agreement are set out below:

| | **Year ended 30 June** | |
|---|---|---|
| | **2006** | **2005** |
| | A$ (HK$) | A$ (HK$) |
| Profit before taxation and extraordinary items | 214,045,000 (1,305,674,500) | 89,640,000 (546,804,000) |
| Profit after taxation and extraordinary items | 149,589,000 (912,492,900) | 64,147,000 (391,296,700) |

The consolidated net profits of Macarthur Coal (both before and after taxation and extraordinary items) for the six months ended 31 December 2005 and 2006 are set out below:

| | **Six months ended 31 December** | |
|---|---|---|
| | **2006** | **2005** |
| | A$ (HK$) | A$ (HK$) |
| Profit before taxation and extraordinary items | 59,846,000 (365,060,600) | 116,781,000 (712,364,100) |
| Profit after taxation and extraordinary items | 42,416,000 (258,737,600) | 82,148,000 (501,102,800) |

The consolidated total assets of Macarthur Coal as at 30 June 2005 and 2006 were A$440,662,000 (HK$2,688,038,200) and A$592,116,000 (HK$3,611,907,600) respectively and as at 31 December 2006 was A$596,455,000 (HK$3,638,375,500).

The consolidated net assets of Macarthur Coal as at 30 June 2005 and 2006 were A$236,088,000 (HK$1,440,136,800) and A$391,173,000 (HK$2,386,155,300) respectively and as at 31 December 2006 was A$406,674,000 (HK$2,480,711,400).

## REASONS AND BENEFITS OF THE ACQUISITION

The Company is a diversified energy and natural resources investment holding company.

The Group holds interests in coal mining through a 7% interest in the Coppabella and Moorvale Joint Venture and an existing 11.62% shareholding interest in Macarthur Coal. Through the Coppabella and Moorvale Joint Venture, the Group produces low volatile PCI coal. Macarthur Coal is also a partner in the Coppabella and Moorvale Joint Venture and has other coal interests in the Bowen Basin in the State of Queensland, Australia and its principal product is PCI coal. Macarthur Coal's operations supply about 35% of the seaborne global demand for PCI coal.

It is part of the Group's long term business strategy to enhance its interests in the coal industry. The Acquisition represents a unique opportunity to increase the Group's shareholding in a company with coal assets that are in strong demand particularly from steel mills in Asia, Europe and the Americas and a management team that the Group knows well. The further investment in Macarthur Coal provides the Company with a stronger strategic position in Macarthur Coal. By increasing its investment in Macarthur Coal to 19.99%, the Company will increase its influence in Macarthur Coal. Since completion of the Acquisition, a director of the Company has been appointed to the board of Macarthur Coal.

The Directors believe the terms of the Acquisition are fair and reasonable and in the interests of the Company and Shareholders as a whole.

## FINANCIAL EFFECTS OF THE ACQUISITION

Following completion of the Acquisition, the Group holds a 19.99% shareholding interest in Macarthur Coal. Such shareholding interest will be treated as an investment in an associate and will be accounted for using the equity method. Appendix III to this circular presents the pro forma financial information on the Group and describes the basis of preparation of the pro forma financial information on the Group.

### Net Asset Value

The audited net asset value of the Group as at 31 December 2006 was HK$3,505,089,000. As set out in Appendix III to this circular, assuming the Acquisition had been completed on 31 December 2006, the pro forma net asset value of the Group as at 31 December 2006 would have been HK$3,275,738,000.

## PROSPECTS OF THE GROUP

Coal is an important element of the Group's business strategy and completion of the Acquisition will add to the Group's objective to be a diversified energy and natural resources company.

The Group's principal coal product is PCI coal for which there continues to be a strong demand from Asia, Europe and the Americas.

In addition, the Group is increasing the scale of its existing oil portfolio and enhancing its profile as an oil producer through the acquisition of 50% of CITIC Group's interest in the Kazakhstan Business, for a consideration of US$1,003,500,001 (HK$7,827,300,008) which the Directors believe will contribute in bringing about an increase in investment opportunities in the oil sector for the Group. As demand in Asia, together with strong demand in the Americas, Japan and Europe, continues to drive competition for energy resources, in particular oil and gas, the Directors believe that it is in the Company's interest and that of Shareholders to develop the Group's oil portfolio further as and when suitable investment opportunities arise.

The Group's interest in the Kazakhstan Business will improve considerably the Group's annual oil production and oil related generated revenue and is expected to become the single largest contributor to the Group's annual revenue. Capital expenditure and operating expenses associated with the Kazakhstan Business will, however, increase the Group's overall capital commitments and operating costs although net cash flows of the Group should still generally improve as a result of the Group's interest in the Kazakhstan Business.

Concurrently with the acquisition of the Kazakhstan Business and the Acquisition, the Group is conducting a due diligence review of the Hainan-Yuedong Block in Bohai Bay Basin in Liaoning Province in the PRC. This is part of a review to determine whether the Group will proceed with its option to acquire an effective 90% interest in the contractor's rights and obligations in the Hainan-Yuedong Block for a consideration of US$150,000,000 (HK$1,170,000,000) subject to adjustment. If the results of the due diligence review prove satisfactory and such interest can also be successfully acquired, the Group's overall oil interests will be further enhanced as a result. However, as the Hainan-Yuedong Block project is currently in the appraisal and development stage, there will not be an immediate contribution to the Group's revenue from this project. Capital expenditure and operating expenses associated with the development of the Hainan-Yuedong Block would add to the Group's overall capital commitments and operating costs and will likely cause a decrease in net cash flows of the Group until production is commenced.

As a whole, the Group is financially sound and well positioned to implement and support its business strategy. It has a strong cash position and is able to continue to leverage on the support of its major shareholders when necessary to develop the Group's businesses.

**LISTING RULES IMPLICATIONS**

The Acquisition constitutes a major transaction for the Company under the Listing Rules and was conditional upon the approval of Shareholders. As no Shareholder is required to abstain from voting if the Company were to convene a special general meeting to approve the Acquisition, this condition was satisfied by way of a written approval of a Shareholder or closely allied group of Shareholders who hold more than 50% of the nominal value of securities of the Company giving the right to attend and vote if a special general meeting of the Company were to be convened to approve the Acquisition.

On 2 July 2007, the Company received a written approval from Keentech and CA to the Acquisition. Keentech and CA are wholly-owned subsidiaries of CITIC Group (and therefore a closely allied group of Shareholders). Keentech and CA are the registered and beneficial holders of 1,990,180,588 Shares and 750,413,793 Shares respectively. The total number of Shares in issue was 5,256,684,381 as at the Latest Practicable Date. The aggregate amount of 2,740,594,381 Shares held by Keentech and CA represent more than 50% of the nominal value of securities of the Company giving the right to attend and vote if a special general meeting of the Company were convened to approve the Acquisition. Keentech, CA and their respective associates do not have any interest in the Share Purchase Agreement, and Keentech and CA are not interested in the Acquisition other than through their holding of Shares. Accordingly, pursuant to Rule 14.44 of the Listing Rules, no special general meeting of the Company will be convened in respect of the Acquisition.

## ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
**Kong Dan**
*Chairman*

## (A) SUMMARY OF AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2006

The following was extracted from the published audited financial statements of the Group for the three years ended 31 December 2006.

**Results**
HK$'000

| | Year ended 31 December | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| | | Restated | |
| Revenue | 7,503,428 | 5,786,386 | 3,610,791 |
| Profit before tax | 316,189 | 342,157 | 59,725 |
| Tax | (70,152) | (110,642) | (52,322) |
| Profit for the year | 246,037 | 231,515 | 7,403 |
| Attributable to: | | | |
| Shareholders of the Company | 200,815 | 221,703 | 4,772 |
| Minority interests | 45,222 | 9,812 | 2,631 |
| | 246,037 | 231,515 | 7,403 |

**Assets and liabilities and minority interests**
HK$'000

| | 31 December | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| Non-current assets | 4,373,701 | 3,080,713 | 2,699,246 |
| Current assets | 4,954,660 | 2,939,314 | 2,999,004 |
| Total assets | 9,328,361 | 6,020,027 | 5,698,250 |
| Current liabilities | 2,854,539 | 1,437,385 | 1,369,385 |
| Non-current liabilities | 2,968,733 | 1,615,235 | 1,672,332 |
| Total liabilities | 5,823,272 | 3,052,620 | 3,041,717 |
| Minority interests | 279,746 | 25,634 | 19,693 |
| | 3,225,343 | 2,941,773 | 2,636,840 |

## (B) SUMMARY OF AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2006

The following was extracted from the Company's 2006 annual report. (References to page numbers in the extract reproduced below are to pages contained in the Company's annual report for the year ended 31 December 2006.)

### INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG

**To the shareholders of CITIC Resources Holdings Limited**
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements of CITIC Resources Holdings Limited set out on pages 41 to 125, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' responsibility for the financial statements**

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

**Auditors' responsibility**

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, 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 auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
20 April 2007

**CONSOLIDATED INCOME STATEMENT**
YEAR ENDED 31 DECEMBER 2006
HK$'000

| | Notes | 2006 | 2005 Restated |
|---|---|---|---|
| **REVENUE** | 5 | 7,503,428 | 5,786,386 |
| Cost of sales | | (6,974,598) | (5,376,077) |
| Gross profit | | 528,830 | 410,309 |
| Other income and gains | 5 | 283,245 | 195,293 |
| Selling and distribution costs | | (68,302) | (33,805) |
| Administrative expenses | | (214,910) | (132,526) |
| Other operating expenses, net | | (62,319) | (3,384) |
| Finance costs | 9 | (150,355) | (93,730) |
| **PROFIT BEFORE TAX** | 6 | 316,198 | 342,157 |
| Tax | 10 | (70,152) | (110,642) |
| **PROFIT FOR THE YEAR** | | 246,037 | 231,515 |
| **ATTRIBUTABLE TO:** | | | |
| Shareholders of the Company | 11 | 200,815 | 221,703 |
| Minority interests | | 45,222 | 9,812 |
| | | 246,037 | 231,515 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY** | 12 | | |
| Basic | | HK4.65 cents | HK5.14 cents |
| Diluted | | HK4.61 cents | N/A |
| **DIVIDEND PER SHARE** | | Nil | Nil |

**CONSOLIDATED BALANCE SHEET**
31 DECEMBER 2006
HK$'000

| | Notes | 2006 | 2005 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | 2,391,501 | 1,170,614 |
| Prepaid land lease premiums | 14 | 58,353 | — |
| Goodwill | 17 | 341,512 | 341,512 |
| Other intangible assets | 15 | 135,701 | — |
| Other assets | 16 | 555,983 | 573,878 |
| Available-for-sale equity investments | 20 | 845,936 | 657,035 |
| Prepayments, deposits and other receivables | 21 | 16,346 | 326,486 |
| Loan receivable | 24 | 21,615 | — |
| Deferred tax assets | 35 | 6,754 | 11,188 |
| Total non-current assets | | 4,373,701 | 3,080,713 |
| **CURRENT ASSETS** | | | |
| Inventories | 22 | 1,112,150 | 656,138 |
| Accounts receivable | 25 | 939,938 | 395,749 |
| Prepayments, deposits and other receivables | 21 | 1,867,396 | 29,185 |
| Loan receivable | 24 | 17,327 | — |
| Equity investments at fair value through profit or loss | 26 | 1,974 | 1,830 |
| Derivative financial instruments | 31 | 16,380 | 12,356 |
| Due from related companies | 23 | 51,486 | — |
| Due from the ultimate holding company | 23 | 34,320 | — |
| Other assets | 16 | 62,945 | 58,365 |
| Cash and bank balances | 27 | 850,744 | 1,519,595 |
| | | 4,954,660 | 2,673,218 |
| Assets of a disposal group classified as held for sale | 28 | — | 266,096 |
| Total current assets | | 4,954,660 | 2,939,314 |
| **CURRENT LIABILITIES** | | | |
| Accounts payable | 29 | 533,788 | 186,288 |
| Tax payable | | 47,108 | 71,709 |
| Accrued liabilities and other payables | 30 | 306,789 | 51,153 |
| Derivative financial instruments | 31 | 286,920 | 203,541 |
| Due to a minority shareholder | 32 | 38,174 | — |
| Bank and other loans | 33 | 1,588,022 | 858,393 |
| Provisions | 34 | 53,738 | 33,229 |
| | | 2,854,539 | 1,404,313 |

**CONSOLIDATED BALANCE SHEET**
31 DECEMBER 2006
HK$'000

| | Notes | **2006** | **2005** |
|---|---|---|---|
| Liabilities of a disposal group classified as held for sale | 28 | — | 33,072 |
| Total current liabilities | | 2,854,539 | 1,437,385 |
| **NET CURRENT ASSETS** | | 2,100,121 | 1,501,929 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 6,473,822 | 4,582,642 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 6,473,822 | 4,582,642 |
| **NON-CURRENT LIABILITIES** | | | |
| Bank and other loans | 33 | 2,214,540 | 1,047,223 |
| Deferred tax liabilities | 35 | 519,933 | 470,985 |
| Derivative financial instruments | 31 | 41,063 | 11,016 |
| Provisions | 34 | 117,549 | 86,011 |
| Other payables | | 75,648 | — |
| Total non-current liabilities | | 2,968,733 | 1,615,235 |
| Net assets | | 3,505,089 | 2,967,407 |
| **EQUITY** | | | |
| **Equity attributable to shareholders of the Company** | | | |
| Issued capital | 36 | 215,909 | 215,844 |
| Reserves | 38(a) | 3,009,434 | 2,725,929 |
| | | 3,225,343 | 2,941,773 |
| **Minority interests** | | 279,746 | 25,634 |
| Total equity | | 3,505,089 | 2,967,407 |

**Kwok Peter Viem**
*Director*

**Ma Ting Hung**
*Director*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2006

HK$'000

| | Attributable to shareholders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital | Share premium account | Contributed surplus | Exchange fluctuation reserve | Available-for-sale revaluation reserve | Hedging reserve | Share option reserve | Accumulated losses | Sub-total | Minority interests | Total equity |
| At 1 January 2005 | 215,844 | 2,561,962 | 65,527 | 50,335 | 203,741 | (30,205) | – | (267,558) | 2,799,646 | 19,693 | 2,819,339 |
| Exchange realignment | – | – | – | (57,175) | – | – | – | – | (57,175) | (1,144) | (58,319) |
| Net losses on cash flow hedges # | – | – | – | – | – | (122,126) | – | – | (122,126) | – | (122,126) |
| Change in fair value of available-for-sale equity investments # | – | – | – | – | 87,045 | – | – | – | 87,045 | – | 87,045 |
| Total income and expense for the year recognised directly in equity | – | – | – | (57,175) | 87,045 | (122,126) | – | – | (92,256) | (1,144) | (93,400) |
| Profit for the year | – | – | – | – | – | – | – | 221,703 | 221,703 | 9,812 | 231,515 |
| Total income and expense for the year | – | – | – | (57,175) | 87,045 | (122,126) | – | 221,703 | 129,447 | 8,668 | 138,115 |
| Acquisition of interests in subsidiaries by minority shareholders | – | – | – | – | – | – | – | – | – | 2,801 | 2,801 |
| Dividends paid to minority shareholders | – | – | – | – | – | – | – | – | – | (5,528) | (5,528) |
| Equity-settled share option arrangements | – | – | – | – | – | – | 12,680 | – | 12,680 | – | 12,680 |
| At 31 December 2005 | 215,844 | 2,561,962 | 65,527 | (6,840) | 290,786 | (152,331) | 12,680 | (45,855) | 2,941,773 | 25,634 | 2,967,407 |

# Amounts net of deferred tax impact already.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2006

HK$'000

| | Notes | Attributable to shareholders of the Company | | | | | | | | | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Issued capital | Share premium account | Contributed surplus | Exchange fluctuation reserve | Available-for-sale revaluation reserve | Hedging reserve | Share option reserve | Retained profits/ (accumulated losses) | Sub-total | | |
| At 1 January 2006 | | 215,844 | 2,561,962 | 65,527 | (6,840) | 290,786 | (152,331) | 12,680 | (45,855) | 2,941,773 | 25,634 | 2,967,407 |
| Exchange realignment | | – | – | – | 5,802 | – | – | – | – | 5,802 | 2,016 | 7,818 |
| Net gains on cash flow hedges # | | – | – | – | – | – | 72,915 | – | – | 72,915 | – | 72,915 |
| Change in fair value of available-for-sale equity investments # | | – | – | – | – | (23,507) | – | – | – | (23,507) | – | (23,507) |
| Total income and expense recognised directly in equity | | – | – | – | 5,802 | (23,507) | 72,915 | – | – | 55,120 | 2,016 | 57,226 |
| Profit for the year | | – | – | – | – | – | – | – | 200,815 | 200,815 | 45,222 | 246,037 |
| Total income and expense for the year | | – | – | – | 5,802 | (23,507) | 72,915 | – | 200,815 | 256,025 | 47,238 | 303,263 |
| Acquisition of interests in subsidiaries by minority shareholders | 39(a) | – | – | – | – | – | – | – | – | – | 213,432 | 213,432 |
| Dividends paid to minority shareholders | | – | – | – | – | – | – | – | – | – | (6,558) | (6,558) |
| Issue of new shares upon exercise of share options | 38(b) | 65 | 1,625 | – | – | – | – | (286) | – | 1,404 | – | 1,404 |
| Equity-settled share option arrangements | 38(b) | – | – | – | – | – | – | 26,141 | – | 26,141 | – | 26,141 |
| At 31 December 2006 | | 215,909 | 2,563,587* | 65,527* | (1,038)* | 267,279* | (79,416)* | 38,535* | 154,960* | 3,225,343 | 279,746 | 3,505,089 |

* These reserve amounts comprise the consolidated reserves of HK$3,009,434,000 (2005: HK$2,725,929,000) in the consolidated balance sheet.

# Amounts net of deferred tax impact already.

**CONSOLIDATED CASH FLOW STATEMENT**
YEAR ENDED 31 DECEMBER 2006
HK$'000

| | Notes | **2006** | **2005** |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | 316,189 | 342,157 |
| Adjustments for: | | | |
| Interest income | 5 | (144,810) | (75,002) |
| Dividend income from listed investments | 5 | (55,115) | (19,768) |
| Gain on sales of coal exploration interests | 5 | — | (78,463) |
| Gain on disposal of available-for-sale equity investments | 5 | (5,235) | — |
| Gain on conversion of available-for-sale equity investments | 5 | (17,502) | — |
| Equity-settled share option expenses | 6 | 26,158 | 12,680 |
| Depreciation | 6 | 92,560 | 114,330 |
| Amortisation | 6 | 68,113 | 58,348 |
| Loss on disposal/write-off of items of property, plant and equipment | 6 | 4,568 | 6,563 |
| Provision/(write-back of provision) for impairment of items of property, plant and equipment | 6 | (4,893) | 12,733 |
| Provision for long service and leave payments | 6 | 6,715 | 12,779 |
| Provision for impairment of accounts receivable | 6 | 1,816 | 1,725 |
| Provision against inventories | 6 | 1,515 | 5,151 |
| Provision for rehabilitation cost | 6 | 8,554 | 1,292 |
| Provision for abandonment cost | 6 | 112 | — |
| Unrealised losses on embedded derivatives | 6 | 111,667 | 13,235 |
| Unrealised foreign exchange losses | | 25,777 | — |
| Warranty income, net | 6 | (14,908) | — |
| Finance costs | 9 | 150,355 | 93,730 |
| | | 571,636 | 501,490 |
| Decrease/(increase) in inventories | | (302,729) | 21,180 |
| Increase in accounts receivable | | (502,396) | (95,046) |
| Decrease/(increase) in prepayments, deposits and other receivables | | (59,723) | 223,100 |
| Increase in due from related companies | | (51,486) | — |
| Increase/(decrease) in accounts payable | | 313,906 | (24) |
| Decrease in accrued liabilities and other payables | | (116,872) | — |
| Increase in an amount due to a minority shareholder | | 38,174 | — |

**CONSOLIDATED CASH FLOW STATEMENT**
Year ended 31 December 2006
HK$'000

| | Notes | **2006** | **2005** |
|---|---|---|---|
| Cash (used in)/generated from operations | | (109,490) | 650,700 |
| Australian income tax paid | | (144,835) | (80,491) |
| PRC income tax paid | | (623) | — |
| Net cash inflow/(outflow) from operating activities | | (254,948) | 570,209 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | 142,403 | 75,002 |
| Dividends received from listed investments | 5 | 55,115 | 19,768 |
| Purchases of items of property, plant and equipment | 13 | (173,368) | (149,124) |
| Purchase of other intangible assets | 15 | (32) | — |
| Proceeds from disposal of items of property, plant and equipment | | 21,632 | — |
| Proceeds from disposal of available-for-sale equity investments | | 31,221 | — |
| Net cash inflow from acquisition of subsidiaries | 39(a) | 148,230 | — |
| Repayment of loan receivable | | 15,990 | — |
| Net cash outflow from acquisition of the participating interest in a joint venture | 39(b) | (757,723) | — |
| Proceeds from disposal of short term investments | | — | 827 |
| Deposits paid for potential investment projects | 21 | (1,560,000) | (288,500) |
| Payments of interest, legal and professional fees and other charges incurred in relation to potential investment projects | | (35,177) | (22,929) |
| Net cash outflow from investing activities | | (2,111,709) | (364,956) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of share capital | 36 | 1,404 | — |
| Acquisitions of interests in subsidiaries by minority shareholders | | — | 2,801 |
| Dividends paid to minority shareholders | | (6,558) | (5,528) |
| New bank and other loans | | 6,019,860 | 63,606 |
| Repayment of bank and other loans | | (4,183,162) | (222,518) |
| Interest paid | | (137,025) | (91,726) |
| Finance charges paid | | (3,652) | (11,523) |
| Net cash inflow/(outflow) from financing activities | | 1,690,867 | (264,888) |

**CONSOLIDATED CASH FLOW STATEMENT**
YEAR ENDED 31 DECEMBER 2006
HK$'000

| | Notes | 2006 | 2005 |
|---|---|---|---|
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | (675,790) | (59,635) |
| Cash and cash equivalents at beginning of year | | 1,519,595 | 1,606,833 |
| Effect of foreign exchange rate changes, net | | 6,939 | (27,603) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | 850,744 | 1,519,595 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 27 | 310,258 | 166,033 |
| Non–pledged time deposits with original maturity of less than three months when acquired | 27 | 540,486 | 1,353,562 |
| | | 850,744 | 1,519,595 |

**BALANCE SHEET**
31 DECEMBER 2006
HK$'000

| | Notes | 2006 | 2005 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Interests in subsidiaries | 18 | 2,382,642 | 1,721,501 |
| Prepayments, deposits and other receivables | | 5,527 | 7,518 |
| Total non-current assets | | 2,388,169 | 1,729,019 |
| **CURRENT ASSETS** | | | |
| Prepayments, deposits and other receivables | | 1,674,413 | 3,280 |
| Bank balances | 27 | 22,690 | 887,680 |
| Total current assets | | 1,697,103 | 890,960 |
| **CURRENT LIABILITIES** | | | |
| Accrued liabilities and other payables | | 76,706 | 82 |
| Bank loans, unsecured | 33 | 343,200 | — |
| Total current liabilities | | 419,906 | 82 |
| **NET CURRENT ASSETS** | | 1,277,197 | 890,878 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 3,665,366 | 2,619,897 |
| **NON-CURRENT LIABILITIES** | | | |
| Bank loans, unsecured | 33 | 1,170,000 | — |
| Net assets | | 2,495,366 | 2,619,897 |
| **EQUITY** | | | |
| Issued capital | 36 | 215,909 | 215,844 |
| Reserves | 38(b) | 2,279,457 | 2,404,053 |
| Total equity | | 2,495,366 | 2,619,897 |

**Kwok Peter Viem**
*Director*

**Ma Ting Hung**
*Director*

## NOTES TO FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

CITIC Resources Holdings Limited is a limited liability company incorporated in Bermuda. The head office and principal place of business of the Company is located at Suites 3001-3006, 30th Floor, One Pacific Place, 88 Queensway, Hong Kong.

The principal activity of the Company is investment holding.

Following the acquisition of CITIC Dameng Mining Industries Limited (the "Manganese Company") and its subsidiaries, and 51% participating interest in the Seram Island Non-Bula Block production sharing contract (the "Seram PSC"), the Group is principally engaged in the following businesses:

- the operation of the Portland Aluminium Smelter which sources alumina and produces aluminium ingots in Australia;
- the operation of coal mining and the sale of coal in Australia;
- the export of various commodity products such as alumina, aluminium ingots and iron ore and the import of other commodities and manufactured goods such as vehicle and industrial batteries, tyres, alloy wheels and various metals such as steel and aluminium extrusion products in Australia;
- the sale of crude oil and petroleum drilled from the Dagang Oilfield in the PRC;
- the operation of manganese mining and the sale of refined manganese products in the PRC; and
- the exploration, development, production and sale of crude oil and petroleum drilled from the Seram Island Non-Bula Block, Indonesia.

On 18 February 2006, the Group exercised its option to convert its 40% participating interest in the Kongnan Block within the Dagang Oilfield in the PRC (the "Dagang Participating Interest"), with a then carrying value of US$27,386,135 (HK$213,612,000), into 8,591,434 common shares ("Ivanhoe Shares") in the share capital of Ivanhoe Energy Inc. ("Ivanhoe") and a 3-year non-interest bearing, unsecured loan of US$7,386,135 (HK$57,612,000) ("Ivanhoe Loan") repayable by Ivanhoe. Ivanhoe Loan is repayable by 36 monthly instalments and the first instalment was due and received in March 2006.

In the opinion of the directors, the parent and the ultimate holding company of the Company is CITIC Group, a company incorporated in the PRC.

During the year, the Group continues to explore other investment opportunities in the field of natural resources.

## NOTES TO FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION (continued)

**Proposed acquisition of potential oil assets located in Kazakhstan**

On 27 October 2006, a memorandum of understanding (the "MOU") was entered into by the Company and CITIC Group. Pursuant to the MOU, the Company has been granted a purchase right (the "Purchase Right"), which is exercisable by the Company during the period of one year (from the date which CITIC Group completed its acquisition of the oil assets located in Kazakhstan), to acquire these assets (the "Potential Assets"). The Potential Assets principally comprise a 94.6% interest in Karazhanbasmunai JSC, a joint stock company formed under the laws of Kazakhstan, which holds 100% of the mineral rights until 2020 to develop the Karazhanbas Oil and Gas Field in Mangistau Oblast, Kazakhstan. On 29 December 2006, CITIC Group completed the acquisition of the Potential Assets from CITIC Canada Petroleum Limited (formerly known as Nations Energy Company Ltd.) ("CCPL").

If the Company elects to exercise the Purchase Right, completion of the sale and purchase of the Potential Assets between the CITIC Group and the Company will constitute a very substantial acquisition and connected transaction of the Company under the Listing Rules and such transaction will require the approval of the independent shareholders of the Company and the approval of the relevant government and regulatory authorities in Kazakhstan. As at 31 December 2006, the Purchase Right has not been exercised by the Company.

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments, which have been measured at fair value. A disposal group held for sale is stated at the lower of carrying amount and fair value less costs to sell as further explained in note 28 to the financial statements. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except where otherwise indicated.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of 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.

## NOTES TO FINANCIAL STATEMENTS

**2.1 BASIS OF PREPARATION (continued)**

**Basis of consolidation (continued)**

Minority interests represent interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

**2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for certain cases giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

| | |
|---|---|
| HKAS 21 Amendment | Net Investment in a Foreign Operation |
| HKAS 39 & HKFRS 4 Amendments | Financial Guarantee Contracts |
| HKAS 39 Amendment | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 Amendment | The Fair Value Option |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HK(IFRIC) - Int 4 | Determining whether an Arrangement contains a Lease |

The principal changes in accounting policies are as follows:

**(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates**

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

**(b) HKAS 39 Financial Instruments: Recognition and Measurement**

***(i) Amendment for financial guarantee contracts***

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

## NOTES TO FINANCIAL STATEMENTS

**2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)**

**(b) HKAS 39 Financial Instruments: Recognition and Measurement (continued)**

***(ii) Amendment for the fair value option***

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

***(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions***

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

**(c) HKFRS 6 – Exploration for and Evaluation of Mineral Resources**

HKFRS deals with the accounting for exploration and evaluation of mineral resources, including oil and gas.

**(d) HK(IFRIC) – Int 4 Determining whether an Arrangement contains a Lease**

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

## NOTES TO FINANCIAL STATEMENTS

### 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HKFRS 8 | Revised Requirements of Segment Reporting |
| HK(IFRIC) - Int 7 | Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies* |
| HK(IFRIC) - Int 8 | Scope of HKFRS 2 |
| HK(IFRIC) - Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC) - Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC) - Int 11 | HKFRS 2 — Group and Treasury Share Transactions Service |
| HK(IFRIC) - Int 12 | Service Concession Arrangements |

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 Segment Reporting.

HK(IFRIC) - Int 7, HK(IFRIC) - Int 8, HK(IFRIC) - Int 9, HK(IFRIC) - Int 10, HK(IFRIC) - Int 11 and HK(IFRIC) - Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Subsidiaries**

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

**Joint ventures**

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture's financial and operating policies;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture:

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Jointly-controlled assets**

Jointly-controlled assets are assets in a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets.

The Group's share of jointly-controlled assets and any liabilities incurred jointly with other venturers are recognised in the consolidated balance sheet and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests of jointly-controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly-controlled assets, together with its share of any expenses incurred by the joint ventures, are recognised in the income statement when it is probable that the economic benefits associated with the transactions will flow to or from the Group. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

**Goodwill**

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash- generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Goodwill (continued)**

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash–generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

**Impairment of non-financial assets other than goodwill**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the consolidated income statement in the period in which it arises.

**Related parties**

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

(a) 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;

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Related parties (continued)**

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) 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 (d) or (e); or

(g) 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.

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Plant and machinery, which include the furnace, water system, pot room and ingot mill, and buildings and structures used in the Portland Aluminium Smelter, are estimated to have a useful life up to 2030.

## NOTES TO FINANCIAL STATEMENTS

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, plant and equipment and depreciation (continued)**

Other fixed assets are estimated to have the following useful lives:

| | |
|---|---|
| Leasehold improvements | 10–12 years or over the unexpired lease terms, whichever is shorter |
| Motor vehicles, plant, machinery, tools and equipment | 5–15 years |
| Furniture and fixtures | 4–5 years |
| Buildings and structures | 15–30 years |

Freehold land is not depreciated.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building and structure under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

***Oil and gas properties***

For oil and gas properties, the successful effort method of accounting is adopted. The Group capitalises initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgment. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells are all classified as development costs, including those renewals and betterments which extend the economic lives of the assets. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

Exploratory wells are evaluated for economic viability within one year of completion. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon successful completion of further exploratory work remain capitalised, and are reviewed periodically for impairment.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property, plant and equipment and depreciation (continued)**

***Oil and gas properties (continued)***

Productive oil and gas properties and other tangible and intangible costs of production properties are amortised using the unit-of-production method on a property-by-property basis under which the ratio of produced oil and gas to the estimated remaining proved developed reserves is used to determine the depreciation, depletion and amortisation provision. Costs associated with significant development projects are not depleted until commercial production commences and the reserves related to those costs are excluded from the calculation of depletion.

Capitalised acquisition costs of proved properties are amortised by the unit-of-production method on a property-by-property basis computed based on the total estimated units of proved reserves.

***Capital works***

Capital works represent exploration and development expenditure in relation to the Group's mining activities, which includes costs of coal mining tenements, are carried forward to the extent that:

(i) such costs are expected to be recouped through successful development and production of the areas or by its sale; or

(ii) exploration activities in the area that have not reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves.

Costs are amortised from the date of commencement of production on a production output basis.

**Other intangible assets**

Other intangible assets represent mining rights and are stated at cost less accumulated amortisation and impairment losses. The mining rights are amortised using the units of production method based on the proven and probable mineral reserves, which are reviewed at least at each balance sheet date. The intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

**Other assets**

Other assets represent the amounts paid for an electricity supply agreement (the "ESA"), a 30-year base power contract entered into with the State Electricity Commission of Victoria, Australia. The ESA provides steady electricity supply at a fixed tariff to the Portland Aluminium Smelter for a period up to 31 October 2016. Other assets are stated at cost less accumulated amortisation, provided on a straight-line basis over the term of the base power contract, and any impairment losses.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Non-current assets and disposal groups held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

**Investments and other financial assets**

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments and other financial assets (continued)**

***Financial assets at fair value through profit or loss (continued)***

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

***Fair value***

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets**

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

***Assets carried at amortised cost***

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

***Assets carried at cost***

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets (continued)**

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is transferred from equity to the consolidated income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the consolidated income statement.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

**Financial liabilities at amortised cost (including bank and other loans)**

Financial liabilities including bank and other loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statement.

**Derivative financial instruments and hedging**

The Group uses derivative financial instruments such as forward currency and commodity contracts and interest rate swap to hedge its risks associated with foreign currency, commodity price and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated income statement.

The fair value of forward currency and commodity contracts is calculated by reference to current forward exchange rates and commodity prices for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to applicable interest rates in the market.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment (except for foreign currency risk); or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fair value hedges**

The change in the fair value of a hedging derivative is recognised in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the consolidated income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the consolidated income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement. The changes in the fair value of the hedging instrument are also recognised in the consolidated income statement.

***Cash flow hedges***

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the consolidated income statement.

Amounts taken to equity are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised immediately in equity remain in equity until the forecast transaction or firm commitment occurs.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Except for exported goods held for re-sale which are stated at cost on the first-in, first-out basis, cost is determined on the weighted average basis. In the case of work in progress and finished goods, cost comprises direct materials, direct labor and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

Provision for rehabilitation cost represents the estimated costs of rehabilitation relating to the areas disturbed during the operation of the Portland Aluminium Smelter and the coal mines in Australia. The Group is required to return the sites to the Australian authorities in their original condition. The Group has estimated and provided for the expected costs of removal and clean-up on a periodical basis, based on the estimates provided by the environmental authorities when they reviewed the sites.

Provision for abandonment cost represents the estimated costs of abandoning oil and gas properties. The provision for abandonment cost has been classified under long term liabilities. The associated cost is capitalised and the liability is discounted and an accretion expense is recognised using the credit-adjusted risk-free interest rate in effect when the liability is initially recognised.

**Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income tax (continued)**

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where 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; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition**

Revenue is recognised on the following bases when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets;

(c) handling service fee, when the services have been rendered; and

(d) dividend income, when the shareholders' right to receive payment has been established.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Prepaid land lease premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

**Employee benefits**

***Share-based payment transactions***

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binominal model, further details of which are given in note 37 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (the "market conditions"), if applicable.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits (continued)**

***Share-based payment transactions (continued)***

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

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

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

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

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

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Ownership-based remuneration is provided to employees via the CITIC Australia Trading Limited ("CATL") director option plan and the employee option plan. Information relating to the schemes is set out in note 37 to the financial statements.

Share-based compensation to directors and employees is recognised as an expense in respect of the services received measured on a fair value basis.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits (continued)**

***Share options granted after 7 November 2002 and vested on or after 1 January 2005***

The fair value of the options granted under the director and employee option plans is recognised as an employee benefits expense with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value of the options at the grant date is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the options, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the options, the share price at the grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the options.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefits expense recognised during each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share option reserve relating to those options is transferred to the share capital. The market value of any shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

***Long service payments***

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance or the superannuation legislation of the Australian government in the event of termination of their employment. The Group is liable to make such payments in the event that such termination of employment meets the circumstances as specified in the respective regulations.

The Group provides for the probable long service leave and holiday pay expected to be paid to employees under the superannuation legislation of the Australian government. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits (continued)**

***Pension schemes***

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

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. Subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

The Group operates a defined contribution retirement benefits scheme (the "RB Scheme") under the superannuation legislation of the Australian government for those employees in Australia who are eligible to participate. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the RB Scheme. The assets of the RB Scheme are held separately from those of the Group in an independently administered fund. The Group' contributions as an employer vest fully with the employees when contributed into the RB Scheme.

***Paid leave carried forward***

The Group provides paid leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

## NOTES TO FINANCIAL STATEMENTS

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currencies**

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity as the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulated amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

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

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

**Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

**Tax**

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgment on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

## NOTES TO FINANCIAL STATEMENTS

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**

**Employee benefits — share-based payment transactions**

The valuation of the fair value of the share options granted requires judgment in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the options and the number of share options that are expected to become exercisable, details of which are set in note 37 to the financial statements. Where the outcome of the number of options that are exercisable is different from the previously estimated number of exercisable options, such difference will have impact on the consolidated income statement in the subsequent remaining vesting period of the relevant share options.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

***Impairment of goodwill***

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$341,512,000 (2005: HK$341,512,000). More details are given in note 17 to the financial statements.

***Oil and gas reserve and mining reserves***

The most significant estimates in the oil and gas operation pertain to oil and gas reserves and mining reserves volumes and the future development, purchase price allocation, provision for rehabilitation cost and abandonment cost as well as estimates relating to certain oil and gas reserve and mining revenues and expenses. Actual amounts could differ from those estimates and assumptions. More details are given in notes 3, 13 and 34 to the financial statements.

**4. SEGMENT INFORMATION**

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

## NOTES TO FINANCIAL STATEMENTS

**4. SEGMENT INFORMATION (continued)**

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the aluminium smelting segment comprises the operation of the Portland Aluminium Smelter which sources alumina and produces aluminium ingots in Australia;

(b) the coal segment comprises the operation of coal mining and the sale of coal in Australia;

(c) the import and export of commodities segment represents the export of various commodity products such as alumina, aluminium ingots and iron ore and the import of other commodities and manufactured goods such as vehicle and industrial batteries, tyres, alloy wheels and various metals such as steel and aluminium extrusion products in Australia;

(d) the manganese segment comprises the operation of manganese mining operated by the Manganese Company (a non-wholly-owned subsidiary of the Company) and the sale of refined manganese products in the PRC;

(e) the crude oil segment comprises the operation of oilfields and the sale of crude oil in the PRC and Indonesia; and

(f) the others segment comprises other operating activities of the Group.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfer are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

**(a) Business segments**

The following tables present revenue, profit and certain assets, liabilities and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

## NOTES TO FINANCIAL STATEMENTS

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### 4. SEGMENT INFORMATION (continued)

#### (a) Business segments (continued)

**Group**

| Year ended 31December 2006 | Aluminium smelting | Coal | Import and export of commodities | Manganese | Crude oil | Others | Consolidated |
|---|---|---|---|---|---|---|---|
| Segment revenue: | | | | | | | |
| Sales to external customers | 1,602,930 | 274,752 | 5,074,136 | 538,006 | 13,604 | — | 7,503,428 |
| Other income | 37,039 | 120 | 9,756 | 15,193 | 5,637 | — | 67,745 |
| | 1,639,969 | 274,872 | 5,083,892 | 553,199 | 19,241 | — | 7,571,173 |
| Segment results | 108,340 | 76,756 | 111,025 | 65,759 | 15,847 | (11,980) | 365,747 |
| Interest income and unallocated gains | | | | | | | 215,500 |
| Unallocated expenses | | | | | | | (114,703) |
| Profit from operating activities | | | | | | | 466,544 |
| Unallocated finance costs | | | | | | | (150,355) |
| Profit before tax | | | | | | | 316,189 |
| Tax | | | | | | | (70,152) |
| Profit for the year | | | | | | | 246,037 |
| Segment assets | 2,034,177 | 157,624 | 1,360,989 | 942,910 | 1,038,281 | 55,195 | 5,589,176 |
| Unallocated assets | | | | | | | 3,739,185 |
| Total assets | | | | | | | 9,328,361 |
| Segment liabilitie | 922,399 | 281,107 | 261,457 | 351,228 | 1,087,969 | 28,788 | 2,932,948 |
| Unallocated liabilities | | | | | | | 2,890,324 |
| Total liabilities | | | | | | | 5,823,272 |
| Other segment information: | | | | | | | |
| Depreciation and amortisation | 106,630 | 10,060 | 1,460 | 17,198 | 11,549 | 11,534 | 158,431 |
| Unallocated amounts | | | | | | | 2,242 |
| | | | | | | | 160,673 |
| Other non-cash expenses | 19,750 | 5,487 | 842 | 2,041 | — | — | 28,120 |
| Unallocated amounts | | | | | | | 33,668 |
| | | | | | | | 61,788 |
| Capital expenditure | 14,955 | 10,795 | 2,368 | 133,111 | 7,975 | — | 169,204 |
| Unallocated amounts | | | | | | | 4,196 |
| | | | | | | | 173,400 |

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 4. SEGMENT INFORMATION (continued)

#### (a) Business segments (continued)

**Group**

| Year ended 31 December 2005 Restated | Aluminium smelting | Coal | Import and export of commodities | Manganese | Crude oil | Others | Consolidated |
|---|---|---|---|---|---|---|---|
| Segment revenue: | | | | | | | |
| Sales to external customers | 1,148,078 | 259,705 | 4,300,699 | — | 77,429 | 475 | 5,786,386 |
| Other income/(expenses) | (3,138) | 78,463 | 21,602 | — | — | 10 | 96,937 |
| | 1,144,940 | 338,168 | 4,322,301 | — | 77,429 | 485 | 5,883,323 |
| Segment results | 173,383 | 177,792 | 82,631 | — | (6,620) | (15,507) | 411,679 |
| Interest income and unallocated gains | | | | | | | 98,356 |
| Unallocated expenses | | | | | | | (74,148) |
| Profit from operating activities | | | | | | | 435,887 |
| Unallocated finance costs | | | | | | | (93,730) |
| Profit before tax | | | | | | | 342,157 |
| Tax | | | | | | | (110,642) |
| Profit for the year | | | | | | | 231,515 |
| Segment assets | 2,133,100 | 160,472 | 849,057 | — | 266,096 | 67,119 | 3,475,844 |
| Unallocated assets | | | | | | | 2,544,183 |
| Total assets | | | | | | | 6,020,027 |
| Segment liabilities | 485,296 | 74,925 | 102,084 | — | 33,072 | 25,308 | 720,685 |
| Unallocated liabilities | | | | | | | 2,331,935 |
| Total liabilities | | | | | | | 3,052,620 |
| Other segment information: | | | | | | | |
| Depreciation and amortisation | 98,553 | 9,135 | 1,278 | — | 50,043 | 11,511 | 170,520 |
| Unallocated amounts | | | | | | | 2,158 |
| | | | | | | | 172,678 |
| Other non-cash expenses | 34,937 | 2,482 | 219 | — | — | 431 | 38,069 |
| Unallocated amounts | | | | | | | 14,854 |
| | | | | | | | 52,923 |
| Capital expenditure | 15,646 | 11,499 | 2,051 | — | 114,093 | 4 | 143,293 |
| Unallocated amounts | | | | | | | 5,831 |
| | | | | | | | 149,124 |

## NOTES TO FINANCIAL STATEMENTS

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### 4. SEGMENT INFORMATION (continued)

#### (b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the year ended 31 December 2006 and 2005.

Group

| Year ended 31 December 2006 | Hong Kong | Mainland China | Australia | Europe | North America | Other Asian countries | Others | Consolidated |
|---|---|---|---|---|---|---|---|---|
| Segment revenue: | | | | | | | | |
| Sales to external customers | — | 3,305,764 | 1,495,282 | 1,850,518 | 315,187 | 494,481 | 42,196 | 7,503,428 |
| Other segment information: | | | | | | | | |
| Segment assets | 1,860,751 | 1,788,287 | 4,373,161 | 215,243 | — | 1,090,919 | — | 9,328,361 |
| Capital expenditure | 280 | 137,027 | 28,118 | — | — | 7,975 | — | 173,400 |
| **Year ended 31 December 2005** | | | | | | | | |
| Segment revenue: | | | | | | | | |
| Sales to external customers | — | 3,052,563 | 1,373,495 | 866,188 | 309,394 | 105,215 | 79,531 | 5,786,386 |
| Other segment information: | | | | | | | | |
| Segment assets | 1,225,585 | 333,414 | 4,461,028 | — | — | — | — | 6,020,027 |
| Capital expenditure | 5,245 | 114,097 | 29,782 | — | — | — | — | 149,124 |

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold during the year, after allowances for returns, trade discounts and royalties.

An analysis of the Group's revenue, other income and gains is as follows:

| | **2006** | **2005**<br>Restated |
|---|---|---|
| **Revenue** | | |
| Sale of goods: | | |
| Aluminium smelting | 1,602,930 | 1,148,078 |
| Coal | 274,752 | 259,705 |
| Import and export of commodities | 5,074,136 | 4,300,699 |
| Manganese | 538,006 | — |
| Crude oil | 13,604 | 77,429 |
| Others | — | 475 |
| | 7,503,428 | 5,786,386 |
| **Other income and gains** | | |
| Interest income | 144,810 | 75,002 |
| Handling service fees | 7,121 | 13,326 |
| Dividend income from listed investments | 55,115 | 19,768 |
| Gain on sales of coal exploration interests | — | 78,463 |
| Gain on disposal of available-for-sale equity investments | 5,235 | — |
| Insurance claim income | 25,996 | — |
| Gain on conversion of available-for-sale equity investments | 17,502 | — |
| Sale of scraps | 11,891 | 5,148 |
| Others | 15,575 | 3,586 |
| | 283,245 | 195,293 |
| | 7,786,673 | 5,981,679 |

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Notes | **2006** | **2005** Restated |
|---|---|---|---|
| Cost of inventories sold* | | 6,974,598 | 5,376,077 |
| Depreciation | 13 | 92,560 | 114,330 |
| Amortisation of the ESA | 16 | 62,930 | 58,348 |
| Amortisation of other intangible assets | 15 | 4,235 | — |
| Amortisation of prepaid land lease premiums | 14 | 948 | — |
| Minimum lease payments under operating leases on land and buildings | | 8,504 | 7,215 |
| Auditors' remuneration | | 7,369 | 4,374 |
| Employee benefits expense (including directors' remuneration — note 7): | | | |
| Wages and salaries | | 95,218 | 52,381 |
| Equity-settled share option expenses | | 26,158 | 12,680 |
| Pension scheme contributions | | 289 | 186 |
| Provision for long service and leave payments | | 6,715 | 12,779 |
| | | 128,380 | 78,026 |
| Loss on disposal/write-off of items of property, plant and equipment** | | 4,568 | 6,563 |
| Provision/(write-back of provision) for impairment of items of property, plant and equipment** | | (4,893) | 12,733 |
| Exchange (gains)/losses, net** | | 53,883 | (30,754) |
| Provision against inventories | | 1,515 | 5,151 |
| Provision for impairment of accounts receivable** | | 1,816 | 1,725 |
| Provision for rehabilitation cost | | 8,554 | 1,292 |
| Provision for abandonment cost | | 112 | — |
| Warranty income, net** # | | (14,908) | — |

* Cost of inventories sold for the year ended 31 December 2006 included an amount of HK$331,693,257 (2005: HK$153,450,000), which comprised direct staff costs, operating lease rentals, depreciation and amortisation of the ESA. Such amount has also been included in the respective expense items disclosed above. Unrealised losses on embedded derivatives of HK$111,667,000 (2005: HK$ 13,235,000) and hedge loss of HK$162,522,000 (2005: HK$31,678,000) had been included in cost of inventories sold.

** These amounts are included in "Other operating expenses, net" on the face of the consolidated income statement.

\# The warranty income, net, represents warranty income of HK$34,320,000 received from CITIC Group net of loss on conversion of the Dagang Participating Interest into Ivanhoe Shares and Ivanhoe Loan of HK$19,412,000. More details are given in note 43(c) to the financial statements.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | **2006** | **2005** |
|---|---|---|
| Fees: | | |
| Executive directors | 860 | — |
| Independent non-executive directors | 567 | 330 |
| | 1,427 | 330 |
| Other emoluments of executive directors: | | |
| Salaries, allowances and benefits in kind | 10,717 | 6,685 |
| Bonuses | 1,950 | 2,643 |
| Share option benefits | 24,618 | 11,564 |
| Pension scheme contributions | 60 | 274 |
| | 37,345 | 21,166 |
| | 38,772 | 21,496 |

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 37 to the financial statements. The fair value of such options, which has been recognised to the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above director's remuneration disclosures.

**(a) Independent non-executive directors**

The fees paid to independent non-executive directors during the year were as follows:

| | **2006** | **2005** |
|---|---|---|
| Chan Mo Po, Paul | — | 90 |
| Fan Ren Da, Anthony | 200 | 120 |
| Ngai Man | 167 | — |
| Tsang Link Carl, Brian | 200 | 120 |
| | 567 | 330 |

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

## NOTES TO FINANCIAL STATEMENTS
HK$'000

**7. DIRECTORS' REMUNERATION (continued)**

**(b) Executive directors**

| | Fees | Salaries, allowances and benefits in kind | Bonuses | Share option benefits | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|---|---|
| **2006** | | | | | | |
| Kwok Peter Viem | — | 1,873 | 300 | 7,825 | 12 | 10,010 |
| Ma Ting Hung | — | 2,003 | 300 | 7,825 | 12 | 10,140 |
| Shou Xuancheng | — | 2,003 | 450 | 1,283 | 12 | 3,748 |
| Sun Xinguo | — | 2,003 | 450 | 1,597 | 12 | 4,062 |
| Li So Mui | — | 2,003 | 450 | 642 | 12 | 3,107 |
| Mi Zengxin | 215 | — | — | 1,283 | — | 1,498 |
| Qiu Yiyong | 215 | — | — | 1,283 | — | 1,498 |
| Zeng Chen | 215 | 832 | — | 1,597 | — | 2,644 |
| Zhang Jijing | 215 | — | — | 1,283 | — | 1,498 |
| | 860 | 10,717 | 1,950 | 24,618 | 60 | 38,205 |
| **2005** | | | | | | |
| Kwok Peter Viem | — | 1,388 | 225 | 3,260 | 12 | 4,885 |
| Ma Ting Hung | — | 1,388 | 225 | 3,260 | 12 | 4,885 |
| Shou Xuancheng | — | 597 | 113 | 917 | 3 | 1,630 |
| Sun Xinguo | — | 597 | 450 | 459 | 3 | 1,509 |
| Li So Mui | — | 1,548 | 225 | 458 | 12 | 2,243 |
| Mi Zengxin | — | — | — | 917 | — | 917 |
| Qiu Yiyong | — | — | — | 917 | — | 917 |
| Zeng Chen | — | 1,167 | 1,405 | 459 | 232 | 3,263 |
| Zhang Jijing | — | — | — | 917 | — | 917 |
| | — | 6,685 | 2,643 | 11,564 | 274 | 21,166 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included five (2005: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one non-director, highest paid employee for 2005 are as follows:

| | 2006 | 2005 |
|---|---|---|
| Salaries, housing allowances, other allowances and benefits in kind | — | 481 |
| Bonuses | — | 1,465 |
| Pension scheme contributions | — | 578 |
| | — | 2,524 |

The number of non-director, highest paid employees whose remuneration fell within the HK$2,500,001 to HK$3,000,000 banding is nil (2005: one).

### 9. FINANCE COSTS

| | 2006 | 2005 |
|---|---|---|
| Interest expense on bank and other loans repayable: | | |
| Within one year | 85,452 | 43,264 |
| In the second to fifth years, inclusive | 64,773 | 10,219 |
| Beyond five years | 9,697 | 34,054 |
| Total interest | 159,922 | 87,537 |
| Less: Interest capitalised | (22,897) | — |
| | 137,025 | 87,537 |
| Other finance charges: | | |
| Increase in discounted amounts of provision arising from the passage of time | 7,673 | 2,445 |
| Others* | 5,657 | 3,748 |
| | 150,355 | 93,730 |

* Included amortisation of up-front fees of HK$2,004,600 (2005: HK$501,150).

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 10. TAX

**Group**

| | **2006** | **2005** |
|---|---|---|
| Current — Hong Kong | — | — |
| Current — Elsewhere | | |
| Charge for the year | 103,072 | 102,371 |
| Overprovision in prior years | (4,533) | — |
| Deferred — note 35 | (28,387) | 8,271 |
| Total tax charge for the year | 70,152 | 110,642 |

The statutory tax rate for Hong Kong profits tax is 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the year (2005: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Provision for Australian income tax has been made at the statutory rate of 30% (2005: 30%) on the estimated assessable profits arising in Australia during the year.

For the year ended 31 December 2006, the tax rates applicable to the subsidiaries established and operating in the PRC and Indonesia are 33% and 30% respectively. However, certain PRC subsidiaries of the Group are subject to a full corporate income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year. No provision for Indonesian tax has been made for the year as the Indonesian operation of the Group did not generate any assessable profits.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 10. TAX (continued)

A reconciliation of the tax charge/(credit) applicable to profit/(loss) before tax using the statutory rates for the countries/jurisdiction in which the Company and its subsidiaries are domiciled to the tax charge/(credit) at the effective tax rates is as follows:

**Group — 2006**

| | Australia | Mainland China | Hong Kong | Indonesia | Consolidated |
|---|---|---|---|---|---|
| Profit/(loss) before tax | 299,407 | 68,589 | (47,222) | (4,585) | 316,189 |
| Tax charge/(credit) at the statutory rates | 89,822 | 22,634 | (8,264) | (1,376) | 102,816 |
| Lower tax rate/tax holiday or concessions for specific provinces or local authorities | — | (25,638) | — | — | (25,638) |
| Adjustments in respect of current tax of previous periods | (4,533) | — | — | — | (4,533) |
| Income not subject to tax | (14,454) | (3,375) | (7,990) | — | (25,819) |
| Expenses not deductible for tax | 1,058 | 5,988 | 16,254 | — | 23,300 |
| Tax losses utilised from previous periods | — | (6,815) | — | — | (6,815) |
| Increase in unutilised tax losses carried forward | — | 5,465 | — | 1,376 | 6,841 |
| Tax charge/(credit) at the Group's effective rate | 71,893 | (1,741) | — | — | 70,152 |

**Group — 2005**

| | Australia | Mainland China | Hong Kong | Indonesia | Consolidated |
|---|---|---|---|---|---|
| Profit/(loss) before tax | 380,231 | (23,136) | (14,938) | — | 342,157 |
| Tax charge/(credit) at the statutory rates | 114,069 | (7,635) | (2,614) | — | 103,820 |
| Income not subject to tax | (23,727) | — | (6,388) | — | (30,115) |
| Expenses not deductible for tax | 19,413 | — | 9,002 | — | 28,415 |
| Increase in unutilised tax losses carried forward | — | 8,522 | — | — | 8,522 |
| Tax charge at the Group's effective rate | 109,755 | 887 | — | — | 110,642 |

## NOTES TO FINANCIAL STATEMENTS
HK$'000

**10. TAX (continued)**

The Group has unrecognised deferred tax assets from tax losses arising in Hong Kong, the PRC and Indonesia in aggregate of HK$69,569,000 (2005: aggregate of HK$57,183,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses arising in Hong Kong and the PRC as they have arisen in companies that have been loss-making for some time.

**11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY**

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2006 includes a loss of HK$152,093,000 (2005: profit of HK$17,079,000) (note 38(b)) dealt with in the financial statements of the Company.

**12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY**

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary shareholders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

A diluted earnings per share amount for the year ended 31 December 2005 has not been presented as exercise prices of the outstanding share options of the Company were greater than the market price of the Company's shares prevailing during a substantial period of the year ended 31 December 2005.

The calculations of basic and diluted earnings per share are based on:

| | **2006** | **2005** |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary shareholders of the Company, used in the basic earnings per share calculation | 200,815 | 221,703 |

| | **Number of shares** | |
|---|---|---|
| | **2006** | **2005** |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | 4,317,072,600 | 4,316,884,381 |
| Effect of dilution — weighted average number of ordinary shares: Share options | 43,138,686 | — |
| | 4,360,211,286 | 4,316,884,381 |

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 13. PROPERTY, PLANT AND EQUIPMENT

**Group**

31 December 2006

| | Notes | Oil and gas properties | Freehold land | Leasehold improvements | Motor vehicles, plant, machinery, tools and equipment | Construction in progress and construction material | Furniture and fixtures | Buildings and structures | Capital works | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | | | |
| At beginning of year | | — | 5,832 | 4,119 | 977,819 | — | 1,377 | 275,926 | 60,582 | 1,325,655 |
| Additions | | 7,975 | 25 | 210 | 41,710 | 85,714 | 755 | 10,700 | 26,279 | 173,368 |
| Disposals/write-off | | — | — | — | (19,184) | (8,711) | (165) | (3,181) | (163) | (31,404) |
| Acquisition of subsidiaries | 39(a) | — | — | — | 117,990 | 69,172 | 2,524 | 122,199 | 3,996 | 315,881 |
| Acquisition of a 51% participating interest in the Seram PSC | 39(b) | 846,530 | — | — | — | — | 2,067 | — | — | 848,597 |
| Transfers | | — | — | — | 15,891 | (36,440) | — | 20,549 | — | — |
| At 31 December 2006 | | 854,505 | 5,857 | 4,329 | 1,134,226 | 109,735 | 6,558 | 426,193 | 90,694 | 2,632,097 |
| Accumulated depreciation and impairment: | | | | | | | | | | |
| At beginning of year | | — | — | 867 | 125,389 | — | 238 | 21,048 | 7,499 | 155,041 |
| Provided during the year | | 3,323 | — | 742 | 63,662 | — | 565 | 19,253 | 5,015 | 92,560 |
| Disposals/write-off | | — | — | — | (4,875) | — | (72) | (257) | — | (5,204) |
| Impairment/(reversal of impairment) | | — | — | — | (14,583) | — | — | 191 | 9,499 | (4,893) |
| Exchange realignment | | — | — | 2 | 2,091 | — | — | 767 | 232 | 3,092 |
| At 31 December 2006 | | 3,323 | — | 1,611 | 171,684 | — | 731 | 41,002 | 22,245 | 240,596 |
| Net book value: | | | | | | | | | | |
| At 31 December 2006 | | 851,182 | 5,857 | 2,718 | 962,542 | 109,735 | 5,827 | 385,191 | 68,449 | 2,391,501 |

Note: As at 31 December 2006, the property, plant and equipment of HK$62,252,000 (2005: Nil) were pledged against the bank loans as further detailed in note 33(b) to the financial statements. Freehold land of the Group is located in Australia.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

**Group**

31 December 2005

| | Oil and gas properties | Freehold land | Leasehold improvements | Motor vehicles, plant, machinery, tools and equipment | Construction in progress and construction material | Furniture and fixtures | Buildings and structures | Capital works | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | | |
| At beginning of year | 189,612 | 4,964 | 2,305 | 1,015,271 | — | 3 | 286,882 | 57,699 | 1,556,736 |
| Additions | 114,093 | 1,155 | 2,239 | 17,565 | — | 1,385 | 8,744 | 3,943 | 149,124 |
| Disposals/write-off | — | — | (462) | (1,596) | — | (11) | (5,577) | — | (7,646) |
| Reclassification to a disposal group held for sale | (303,705) | — | — | — | — | — | — | — | (303,705) |
| Exchange realignment | — | (287) | 37 | (53,421) | — | — | (14,123) | (1,060) | (68,854) |
| At 31 December 2005 | — | 5,832 | 4,119 | 977,819 | — | 1,377 | 275,926 | 60,582 | 1,325,655 |
| Accumulated depreciation and impairment: | | | | | | | | | |
| At beginning of year | 3,848 | — | 373 | 66,141 | — | — | 9,278 | 3,312 | 82,952 |
| Provided during the year | 50,043 | — | 656 | 47,436 | — | 238 | 11,770 | 4,187 | 114,330 |
| Disposals/write-off | — | — | (162) | (921) | — | — | — | — | (1,083) |
| Impairment | — | — | — | 12,733 | — | — | — | — | 12,733 |
| Reclassification to a disposal group held for sale | (53,891) | — | — | — | — | — | — | — | (53,891) |
| At 31 December 2005 | — | — | 867 | 125,389 | — | 238 | 21,048 | 7,499 | 155,041 |
| Net book value: | | | | | | | | | |
| At 31 December 2005 | — | 5,832 | 3,252 | 852,430 | — | 1,139 | 254,878 | 53,083 | 1,170,614 |

Note: During the year ended 31 December 2005, the directors of the Company considered that certain machinery, tools and equipment were impaired following the sudden failure of electricity supply that had occurred in late 2005. Based on the estimated recoverable amount set out in an insurance compensation plan covering the said machinery, tools and equipment, an impairment provision of HK$12,733,000 was made in 2005.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 14. PREPAID LAND LEASE PREMIUMS

**Group**

| | 2006 | 2005 |
|---|---|---|
| Arising on acquisitions of subsidiaries (note 39(a)) | 60,564 | — |
| Cost at 31 December | 60,564 | — |
| Amortisation | (948) | — |
| Carrying amount at 31 December | 59,616 | — |
| Current portion included in prepayments, deposits and other receivables | (1,263) | — |
| Non-current portion | 58,353 | — |

The leasehold land is held under a long term lease and is situated in the PRC. Leasehold land of HK$1,300,000 is pledged for bank loans as further detailed in note 33(b) to the financial statements.

### 15. OTHER INTANGIBLE ASSETS

**Group**

| | Mining rights |
|---|---|
| Arising on acquisitions of subsidiaries (note 39(a)) | 139,904 |
| Additions | 32 |
| At 31 December 2006 | 139,936 |
| Amortisations provided during the year | (4,235) |
| Net carrying amount at 31 December 2006 | 135,701 |

As at 31 December 2006, the mining rights of HK$135,701,000 were pledged against certain bank loans of the Group as further detailed in note 33(b) to the financial statements.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 16. OTHER ASSETS

**Group**

| | **2006** | **2005** |
|---|---|---|
| Cost: | | |
| At beginning of year | 737,311 | 780,367 |
| Exchange realignment | 49,615 | (43,056) |
| At 31 December | 786,926 | 737,311 |
| Accumulated amortisation: | | |
| At beginning of year | 105,068 | 46,720 |
| Provided during the year | 62,930 | 58,348 |
| At 31 December | 167,998 | 105,068 |
| Net book value: | | |
| At 31 December | 618,928 | 632,243 |
| Non-current portion | 555,983 | 573,878 |
| Current portion | 62,945 | 58,365 |
| | 618,928 | 632,243 |

Other assets represent the amounts paid for the ESA.

### 17. GOODWILL

**Group**

| | **2006** | **2005** |
|---|---|---|
| Cost: | | |
| At beginning and end of year | 341,512 | 341,512 |

## NOTES TO FINANCIAL STATEMENTS
HK$'000

**17. GOODWILL (continued)**

**Group (continued)**

***Impairment testing of goodwill***

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- aluminium smelting segment of HK$316,830,000 (2005: HK$316,830,000); and
- import and export of commodities segment of HK$24,682,000 (2005: HK$24,682,000).

***Aluminium smelting segment***

The recoverable amount of the aluminium smelter cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 6.22% (2005: 5.5%).

***Import and export of commodities segment***

The recoverable amount of the import and export of commodities cash-generating unit is determined based on fair value less costs to sell. The fair value is calculated by reference to the market share price of the listed vehicle of the import and export of commodities segment (CATL) as at 31 December 2006.

**18. INTERESTS IN SUBSIDIARIES**

| **Company** | **2006** | **2005** |
|---|---|---|
| Unlisted shares, at cost | 173,134 | 173,134 |
| Due from subsidiaries | 2,822,924 | 2,004,583 |
| Due to subsidiaries | (1,716) | (1,716) |
| | 2,994,342 | 2,176,001 |
| Provision for impairments | (611,700) | (454,500) |
| | 2,382,642 | 1,721,501 |

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued shares/ paid-up capital | Percentage of equity interest attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Directly held** | | | | |
| SEA Wood Investment Holdings Limited | British Virgin Islands/ Hong Kong | US$10,000 | 100 | Investment holding |
| Starbest Venture Limited | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |
| CITIC Oil and Gas Holdings Limited | British Virgin Islands/ Hong Kong | US$100 | 100 | Investment holding |
| Star Elite Venture Limited* | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |
| **Indirectly held** | | | | |
| Nusoil Manufacturing Limited | British Virgin Islands/PRC | US$100 | 100 | Investment holding |
| Wing Lam (International) Timber Limited | Hong Kong | HK$60,000,000 | 100 | Investment holding |
| Dongguan Xinlian Wood Products Company Limited (note (a)) | PRC | HK$60,000,000 | 100 | Dormant |
| Global Enterprises (HK) Limited | Hong Kong | HK$2 | 100 | Provision of management services |
| Maxpower Resources Limited | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |
| Toplight Resources Limited | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 18. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued shares/ paid-up capital | Percentage of equity interest attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Indirectly held (continued)** | | | | |
| Richfirst Holdings Limited | British Virgin Islands/ PRC | US$100 | 100 | Investment holding |
| Cogent Assets Limited | British Virgin Islands/ Hong Kong | US$2 | 100 | Investment holding |
| Group Smart Resources Limited | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |
| Highkeen Resources Limited | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |
| CITIC Petrochemical Holdings Limited | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |
| CITIC Petrochemical Investments Limited | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |
| CITIC Resources Australia Pty Limited# | State of Victoria, Australia | A$199,019,212 | 100 | Investment holding |
| CITIC Portland Holdings Pty Limited# | State of Victoria, Australia | A$196,791,454 | 100 | Investment holding |
| CITIC Australia (Portland) Pty Limited# | State of Victoria, Australia | A$45,675,117 | 100 | Aluminium smelting |
| CITIC Portland Surety Pty Limited# | State of Victoria, Australia | A$1 | 100 | Investment holding |
| CITIC (Portland) Nominees I Pty Limited (note (b))# | State of Victoria, Australia | A$2 | 100 | Investment holding |

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 18. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued shares/ paid-up capital | Percentage of equity interest attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Indirectly held (continued)** | | | | |
| CITIC (Portland) Nominees II Pty Limited (note (b))# | State of Victoria, Australia | A$2 | 100 | Investment holding |
| CITIC Nominees Pty Limited Partnership# | State of Victoria, Australia | A$6,693,943 | 100 | Investment holding |
| CITIC Nominees Pty Limited# | State of Victoria, Australia | A$2 | 100 | Investment holding |
| CITIC Portland Finance I Pty Limited# | State of Victoria, Australia | A$2 | 100 | Financing |
| CITIC Australia Trading Limited (note (c))# | State of Victoria, Australia | A$7,635,440 | 77.66 | Investment holding |
| CITIC Australia Commodity Trading Pty Limited# | State of Victoria, Australia | A$500,002 | 77.66 | Import and export of commodities and manufactured goods |
| CITIC Tyres & Wheels Pty Limited# | State of Victoria, Australia | A$100 | 77.66 | Import of tyres and alloy wheels |
| CITIC Batteries Pty Limited# | State of Victoria, Australia | A$2 | 77.66 | Dormant |
| CITIC Australia Coal Pty Limited# | State of Victoria, Australia | A$6,589,637 | 100 | Investment holding |
| CITIC Australia Coal Exploration Pty Limited# | State of Victoria, Australia | A$2,845,375 | 100 | Exploration, development and mining of coal |
| CITIC Australia Coppabella Pty Limited# | State of Victoria, Australia | A$5,000,002 | 100 | Mining and production of coal |

## NOTES TO FINANCIAL STATEMENTS
HK$'000

**18. INTERESTS IN SUBSIDIARIES (continued)**

| Name | Place of incorporation/ registration and operations | Nominal value of issued shares/ paid-up capital | Percentage of equity interest attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Indirectly held (continued)** | | | | |
| CITIC Australia Moorvale West Pty Limited# | State of Victoria, Australia | A$2 | 100 | Exploration and development of coal mines |
| CITIC Olive Downs Pty Limited# | State of Victoria, Australia | A$99,958 | 100 | Exploration and development of coal mines |
| CITIC West Walker Pty Limited# | State of Victoria, Australia | A$91,812 | 100 | Exploration and development of coal mines |
| CITIC West Rolleston Pty Limited# | State of Victoria, Australia | A$196,390 | 100 | Exploration and development of coal mines |
| CITIC West/North Burton Pty Limited# | State of Victoria, Australia | A$34,238 | 100 | Exploration and development of coal mines |
| CITIC Capricorn Pty Limited# | State of Victoria, Australia | A$9,549 | 100 | Exploration and development of coal mines |
| CITIC Bowen Basin Pty Limited# | State of Victoria, Australia | A$378,353 | 100 | Exploration and development of coal mines |
| CITIC Nickel Pty Ltd# | State of Victoria, Australia | A$2 | 100 | Investment holding |
| CITIC Nickel Australia Pty Limited# | State of Victoria, Australia | A$1 | 100 | Exploration and development of nickel mines |

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 18. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued shares/ paid-up capital | Percentage of equity interest attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Indirectly held (continued)** | | | | |
| CITIC Nickel International Pty Limited# | State of Victoria, Australia | A$1 | 100 | Exploration and development of nickel mines |
| Beijing Qian Quan Investment Consultant Co. Limited# | Beijing, PRC | RMB1,243,173 | 100 | Consulting |
| Beijing Yi Xin Mei Pty Limited# | Beijing, PRC | RMB500,000 | 100 | Consulting |
| CITIC Mining Equipment Pty Limited* # | State of Victoria, Australia | A$2 | 100 | Investment holding |
| Tyre Choice Pty Limited* # | State of Victoria, Australia | A$2 | 77.66 | Investment holding |
| CITIC Dameng Holdings Limited | Bermuda/Hong Kong | HK$100,000 | 80 | Investment holding |
| CITIC Dameng Investments Limited (note (d)) | British Virgin Islands/ Hong Kong | US$1 | 80 | Investment holding |
| CITIC Dameng Trading Limited | Hong Kong | HK$10,000 | 80 | Trading |
| CITIC Dameng Mining Industries Ltd.* ^ (中信錳礦業有限責任公司) | PRC | RMB500,000,000 | 48 | Exploration and development of manganese mines |
| Guangxi Start Manganese Material Co., Ltd (廣西斯達錳材料有限公司)* Δ | PRC | RMB24,280,000 | 34.16 | Exploration and development of manganese mines |

## NOTES TO FINANCIAL STATEMENTS
HK$'000

**18. INTERESTS IN SUBSIDIARIES (continued)**

| Name | Place of incorporation/ registration and operations | Nominal value of issued shares/ paid-up capital | Percentage of equity interest attributable to the Company | Principal activities |
|---|---|---|---|---|
| **Indirectly held (continued)** | | | | |
| Guangxi Nanning Kuanguang Industry & Trade Co., Ltd (廣西南寧寬廣二貿有限責任公司)*Δ | PRC | RMB1,000,000 | 36.96 | Manufacture of manganese and metal products |
| Tiandeng Dameng Ferroalloy Co., Ltd (天等縣大錳鐵合金有限公司)*Δ | PRC | RMB6,000,000 | 28.8 | Manufacture and sale of metal products |
| Guangxi Daxin Dabao Ferroalloy Co., Ltd (廣州大新縣大寶鐵合金有限公司)*Δ | PRC | RMB2,680,000 | 28.8 | Iron alloy smelting |
| CITIC Indonesia Energy Limited* | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |
| CITIC Seram Energy Limited* (note (e)) | British Virgin Islands/ Indonesia | US$50,000 | 100 | Investment holding |
| CITIC New Highland Petroleum Limited* | British Virgin Islands/ Hong Kong | US$1 | 100 | Investment holding |

* Acquired or established during the year.

\# Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

^ Sino-foreign equity joint venture registered under the PRC law.

Δ Limited liability company registered under the PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 18. INTERESTS IN SUBSIDIARIES (continued)

Notes:

(a) Dongguan Xinlian Wood Products Company Limited ("Dongguan Xinlian") is a wholly-foreign owned enterprise established by Wing Lam (International) Timber Limited ("Wing Lam") in the PRC for a period of 12 years commencing from the date of issuance of its business licence on 3 January 1997.

(b) These two companies jointly own CITIC Nominees Pty Limited Partnership, which owns the interests in the Portland Aluminium Smelter joint venture.

(c) The shares of CATL are listed on the Australian Stock Exchange (the "ASX").

CATL operates a pre-IPO share option scheme for its directors and other employees (the "Pre-Scheme"). The purpose of the Pre-Scheme is to provide incentives for employees to remain in their employment for the long term. CATL had granted share options under the Pre-Scheme to its directors and other employees to subscribe for a total of 4,700,000 shares in CATL at subscription prices that range from A$0.20 to A$0.35 per share. No consideration is payable by participants on the grant of the options.

(d) On 28 February 2006, CITIC Dameng Investments Limited completed the acquisition of the Manganese Company. The Manganese Company in turn holds controlling interests in Guangxi Start Manganese Material Co., Ltd., Guangxi Nanning Kuanguang Industry & Trade Co. Ltd., Tiandeng Dameng Ferroalloy Co., Ltd. and Guangxi Daxin Dabao Ferroalloy Co., Ltd.

(e) CITIC Seram Energy Limited ("CITIC Seram") acquired a 51% participating interest in the 30 year Seram PSC which owns certain oil producing assets in Indonesia for a purchase price of HK$874,952,000, subject to adjustment.

On 23 November 2006, CITIC Seram completed the acquisition of a 51% participating interest in the Seram PSC from KUFPEC (Indonesia) Limited. As of the same date, CITIC Seram became the operator responsible for managing and operating exploration and development at the Seram Island Non-Bula Block.

CITIC Seram has granted to Lion Petroleum (Seram) Limited ("Lion") a put option (the "Put Option"), in which Lion has the right (but not the obligation) to sell to CITIC Seram, and require CITIC Seram to acquire Lion's 2.5% participating interest in the Seram PSC for a consideration of US$4,700,000 (HK$36,700,000 million), subject to adjustment. The Put Option may be exercised at any time during the three months period from the date on which the budget and work program for the year 2007 for the Seram joint venture are approved by the operating committee in accordance with the joint operating agreement of Seram. Lion did not exercise the Put Option and the Put Option lapsed in March 2007.

## NOTES TO FINANCIAL STATEMENTS

HK$'000

### 19. INTERESTS IN JOINTLY-CONTROLLED ASSETS

At 31 December 2006, the Group had joint venture operations in which the Group holds interests as follows:

(a) 22.5% participating interest in the Portland Aluminium Smelter joint venture, the principal activity of which is aluminium smelting;

(b) 16% participating interest in the spent potlining project joint venture at Portland, the principal activity of which is the processing of spent potlining;

(c) 7% participating interest in the Coppabella and Moorvale coal mines joint venture, the principal activity of which is the mining and sale of coal;

(d) 10% participating interest in the Olive Downs joint venture, the principal activity of which is the exploration of coal;

(e) 10% participating interest in the Moorvale West joint venture, the principal activity of which is the exploration of coal;

(f) 10% participating interest in the West/North Burton joint venture, the principal activity of which is the exploration of coal;

(g) 10% participating interest in the West Rolleston joint venture, the principal activity of which is the exploration of coal;

(h) 15% participating interest in the West Walkers joint venture, the principal activity of which is the exploration of coal;

(i) 15% participating interest in the Capricorn joint venture, the principal activity of which is the exploration of coal;

(j) 15% participating interest in the Bowen Basin Coal joint venture, the principal activity of which is the exploration of coal;

(k) 50% participating interest in the CB Exploration joint venture, the principal activity of which is the exploration of coal; and

(l) 51% participating interest in the Seram PSC. Details of the acquisition of the participating interest in this oilfield are included in note 39(b) to the financial statements.

The jointly-controlled assets as detailed in (c) to (k) have different reporting dates to the Group, being 30 June compared to 31 December. The jointly-controlled assets as detailed in (a) to (k) are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms. The audited financial statements issued by another auditors of these jointly-controlled assets up to 31 December 2006 have been used for the purpose of preparation of the consolidated financial statements of the Group.

## NOTES TO FINANCIAL STATEMENTS

HK$'000

### 19. INTERESTS IN JOINTLY-CONTROLLED ASSETS (continued)

The Group's interest in the net assets employed in the Portland Aluminium Smelter joint venture, which accounts for over 10% of the Group's total assets, is included in the consolidated balance sheet under the classifications shown below:

| | **2006** | **2005** |
|---|---|---|
| Non-current assets | 2,200,182 | 2,070,585 |
| Current assets | 146,986 | 114,681 |
| Currenrt liabilities | (318,611) | (99,115) |
| Non-current liabilities | (92,210) | (397,667) |
| Share of net assets employed in the Portland Aluminium Smelter joint venture | 1,936,347 | 1,688,484 |

The Group's interests in the net assets employed in the Seram joint venture is included in the consolidated balance sheet under the classifications shown below:

| | **2006** | **2005** |
|---|---|---|
| Non-current assets | 853,295 | — |
| Current assets | 203,556 | — |
| Current liabilities | (49,604) | — |
| Non-current liabilities | (100,483) | — |
| Share of net assets employed in the Seram joint venture | 906,764 | — |

The Group's interests in the combined net assets employed in the other jointly-controlled assets are included in the consolidated balance sheet under the classifications shown below:

| | **2006** | **2005** |
|---|---|---|
| Non-current assets | 68,602 | 61,166 |
| Current assets | 94,123 | 58,356 |
| Current liabilities | (43,599) | (31,768) |
| Non-current liabilities | (14,696) | (10,564) |
| Share of net assets employed in the other joint ventures | 104,430 | 77,190 |

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 20. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

Non-current listed equity investments, at fair value:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| Australia | 770,538 | 657,035 |
| Canada | 75,398 | — |
| | 845,936 | 657,035 |

The cost of the above investments were:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| Australia | 296,344 | 258,522 |
| Canada | 130,013 | — |
| | 426,357 | 258,522 |

During the year, the loss on fair value of the Group's available-for-sale equity investments of HK$10,175,000 (2005: gain of HK$124,350,000) and related deferred tax liability of HK$13,332,000 (2005: HK$37,305,000) amounted to HK$23,507,000 had been debited directly from equity (2005: HK$87,045,000 had been credited directly into equity).

The fair values of available-for-sale listed equity investments are based on quoted market prices.

### 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

**Current portion**

The current balance includes an amount of HK$86,115,727 being professional fees incurred for financial and legal advice in connection with the Group's potential investment projects. These amounts are intended to be capitalised into the cost of the potential investments if the Group proceeds with these investments. Otherwise such professional fees will be expensed off to the consolidated income statement once it is determined that the Group will not proceed with the related investment.

The current year's balance also includes an amount of US$200,000,000 (HK$1,560,000,000) which was paid as earnest money for the potential investment project in Kazakhstan, further details of which are set out in note 43(b) to the financial statements.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

**21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)**

**Current portion (continued)**

An amount of HK$2,066,000 (2005: HK$301,000) is included in the current portion and represents an amount due from fellow subsidiaries of the Group. The balance is unsecured, interest-free and has no fixed terms of repayment.

**Non-current portion**

Last year's non-current balance included an amount of RMB300,000,000 (HK$288,500,000) and an amount of HK$17,170,000 which was paid as deposit and prepayment of professional fees for the Manganese Company. Last year's balance also included prepayment of professional fees of HK$5,739,000 directly attributable to other potential investments.

**22. INVENTORIES**

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| Raw materials | 184,149 | 67,468 |
| Work in progress | 124,512 | 37,830 |
| Finished goods | 803,489 | 550,840 |
| | 1,112,150 | 656,138 |

**23. DUE FROM RELATED COMPANIES/THE ULTIMATE HOLDING COMPANY**

The amounts due from related companies/the ultimate holding company of the Group are unsecured, interest-free and repayable on demand. The carrying values of the amounts due from related companies/the ultimate holding company approximate to their fair values.

The maximum outstanding balances during the year for related companies and the ultimate holding company were HK$51,486,000 and HK$34,320,000 respectively.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 24. LOAN RECEIVABLE

The Group's loan receivable arose from the conversion of the Dagang Participating Interest. More details are given in notes 28 and 43(c) to the financial statements.

The amortised cost of the Group's loan receivable approximate to its fair value.

The maturity profile of the loan receivable as at the balance sheet date is analysed into the remaining periods to its contractual maturity dates as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| Repayable: | | |
| Within three months | 4,235 | — |
| Three months to one year | 13,092 | — |
| One year to five years | 21,615 | — |
| | 38,942 | — |
| Portion classified as current assets | (17,327) | — |
| Portion classified as non-current assets | 21,615 | — |

### 25. ACCOUNTS RECEIVABLE

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| Notes receivables | 18,522 | — |
| Trade receivables | 921,416 | 395,749 |
| | 939,938 | 395,749 |

Notes receivables represent bank acceptance notes of the Manganese Company which are issued by major banks in China.

The Group normally offers credit terms of 30 to 60 days to its established customers.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 25. ACCOUNTS RECEIVABLE (continued)

An aged analysis of the accounts receivable as at the balance sheet date, based on the invoice date, is as follows:

| | Group | |
|---|---|---|
| | 2006 | 2005 |
| Within one month | 643,465 | 313,181 |
| One to two months | 255,889 | 76,950 |
| Two to three months | 17,794 | 4,630 |
| Over three months | 22,790 | 988 |
| | 939,938 | 395,749 |

Included in the Group's total accounts receivable is an amount due from the Group's fellow subsidiary of HK$235,785,000 (2005: HK$18,313,000), which is repayable on similar credit terms to those offered to other customers of the Group.

### 26. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | |
|---|---|---|
| | 2006 | 2005 |
| Current unlisted equity investments, at fair value: | | |
| Australia | 1,974 | 1,830 |

The above equity investments at 31 December 2005 and 2006 were classified as held for trading.

### 27. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Cash and bank balances | 310,258 | 166,033 | 1,955 | 48 |
| Time deposits* | 540,486 | 1,353,562 | 20,735 | 887,632 |
| | 850,744 | 1,519,595 | 22,690 | 887,680 |

* Amounts of HK$75,528,279 (2005: HK$522,332,000) and HK$15,372,065 (2005: HK$520,618,000) of the time deposits of the Group and of the Company, respectively, as at 31 December 2006 were placed with CITIC Ka Wah Bank Limited.

## NOTES TO FINANCIAL STATEMENTS
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**27. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS (continued)**

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and pledged deposits approximate to their fair values.

At the balance sheet date, the cash and bank balances of the Group and the Company denominated in Renminbi ("RMB") amounted to HK$116,754,514 and HK$2,310,052 (2005: HK$147,509 and Nil). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

**28. ASSETS/LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE**

Pursuant to a resolution of the board of directors of the Company passed on 15 November 2005, the Company announced the board's decision to exercise its option to convert the Dagang Participating Interest into Ivanhoe Shares and Ivanhoe Loan. The Group decided to cease its holding of Dagang Participating Interest because the Group was of the view that the conversion is in the interests of the Group as it will provide the Group with exposure to all of Ivanhoe's oil and energy interests rather than just the Dagang Oilfield project. The conversion was completed on 18 February 2006. Further details of the conversion are included in note 43(c) to the financial statements. As at 31 December 2005, the assets and liabilities related to the Dagang Participating Interest were classified as a disposal group held for sale.

The results of the Dagang Participating Interest for the period/year are presented below:

| | **Period from 1 January 2006 to 18 February 2006** | **2005** |
|---|---|---|
| Revenue | 13,604 | 77,429 |
| Expenses | (13,771) | (84,049) |
| Loss before tax | (167) | (6,620) |
| Tax | 889 | (887) |
| Net profit/(loss) for the period/year | 722 | (7,507) |

## NOTES TO FINANCIAL STATEMENTS
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### 28. ASSETS/LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (continued)

The major classes of assets of the Dagang Participating Interest classified as held for sale as at 31 December are as follows:

| | 2006 | 2005 |
|---|---|---|
| **Assets** | | |
| Property, plant and equipment, net | — | 249,814 |
| Accounts receivable | — | 16,282 |
| Assets classified as held for sale | — | 266,096 |
| **Liabilities** | | |
| Accounts payable | — | 33,072 |

### 29. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date, based on the invoice date, is as follows:

| | Group | |
|---|---|---|
| | 2006 | 2005 |
| Within one month | 455,696 | 170,572 |
| One to two months | 58,416 | 14,762 |
| Two to three months | 5,284 | 172 |
| Over three months | 14,392 | 782 |
| | 533,788 | 186,288 |

The accounts payable are non interest-bearing and are normally settled on 60-day terms.

There is no account payable included in a disposal group (note 28) as at 31 December 2006 (2005: HK$33,073,000) which was aged within three months.

### 30. ACCRUED LIABILITIES AND OTHER PAYABLES

Included in the total balance was an amount of HK$7,210,000 (2005: HK$6,644,000) due to CITIC Group, the ultimate holding company of the Company, which represents an interest expense payable on loans totalling US$41,000,000 (HK$327,003,000) that had been advanced by CITIC Group (note 33(g)).

## NOTES TO FINANCIAL STATEMENTS
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### 31. DERIVATIVE FINANCIAL INSTRUMENTS

| | Group 2006 Assets | Group 2006 Liabilities |
|---|---|---|
| Forward currency contracts and currency options | 10,064 | 8,450 |
| Forward commodity contracts | — | 134,310 |
| Interest rate swap and options | 6,316 | — |
| Derivative financial instruments | — | 185,223 |
| | 16,380 | 327,983 |
| Portion classified as non-current: | | |
| Derivative financial instruments | — | (41,063) |
| Current portion | 16,380 | 286,920 |

The carrying amounts of forward currency and commodity contracts, interest rate swap and embedded derivatives are the same as their fair values.

The Group is the party to derivative financial instruments in the normal course of business in order to hedge the exposure to fluctuations in foreign exchange rates, commodity prices and interest rates.

Accounting policies in relation to derivative financial instruments are set out in note 2.4 to the financial statements.

**Forward currency contracts and currency option — cash flow hedges**

The Group's exports business in Australia involves transactions where both the sales revenue and the majority of the related costs of the goods sold are denominated in United States dollars, as well as other currencies. The Group has entered into forward currency contracts and currency options to hedge its net foreign currency exposures in relation to such transactions.

Imports of the Group generally involve transactions where the purchases of imported goods (as well as some of the costs related to such purchases) are denominated in United States dollars, as well as other currencies. However, subsequent sales of such goods are generally denominated in Australian dollars. Therefore, to enable the Group to manage such business operations, including setting the Australian dollar selling prices of the imported goods, forward currency contracts and currency options are entered into to hedge current and anticipated future purchases.

The contracts are timed to mature when major shipments are scheduled to arrive and cover anticipated purchases and sales in the ensuing financial year. Forward currency contracts described above are considered to be cash flow hedges, and are accounted for in accordance with the accounting policy set out in note 2.4 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS
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### 31. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

**Forward currency contracts and currency option — cash flow hedges (continued)**

At 31 December, the terms of the outstanding contracts held by the Group were as follows:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Weighted average exchange rate** | **Contractual amount** HK$'000 | **Weighted average exchange rate** | **Contractual amount** HK$'000 |
| **Forward contracts:** | | | | |
| (i) Sell A$/Buy US$ | | | | |
| Less than 3 months | 0.7681 | 303,625 | 0.7426 | 168,917 |
| Buy A$/Sell US$ | | | | |
| Less than 3 months | 0.7312 | 68,849 | 0.7403 | 78,484 |
| In 3 to 12 months, inclusive | 0.7137 | 58,548 | 0.7435 | 163,983 |
| In 1 to 2 years, inclusive | 0.7134 | 6,413 | 0.7435 | 18,222 |
| **Currency options:** | | | | |
| (i) Put US$ option sell | | | | |
| Less than 3 months | 0.7700 | 40,081 | 0.7565 | 12,482 |
| In 3 to 12 months, inclusive | — | — | 0.7704 | 3,531 |
| (ii) Call A$ option buy | | | | |
| Less than 3 months | — | — | 0.7565 | 12,482 |
| In 3 to 12 months, inclusive | — | — | 0.7704 | 3,531 |

Amounts disclosed above represent currencies sold measured at the contracted rate.

The portion of gain or loss on the hedging instruments that is determined to be an effective hedge is recognised directly in equity. When a cash flow occurs, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount in equity.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

**31. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

**Forward commodity contracts — cash flow hedges**

The Group has also committed to the following contracts in order to protect the Group from adverse movements in aluminium prices.

All commodity contracts are normally settled other than by physical delivery of the underlying commodities and hence are classified as financial instruments. On maturity, the contracted price is compared to the spot price and the differential is applied to the contracted quantity. A net amount is paid or received by the Group.

Aluminium forward contracts are entered into for the purpose of hedging future production, the contracts are considered to be cash flow hedges, and are accounted for in accordance with the accounting policy in note 2.4 to the financial statements.

At 31 December, the terms of the Group's outstanding commodity derivative financial instruments were as follows:

| | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | Quantity hedged (MT) | Average price per tonne HK$ | Contractual amount HK$'000 | Quantity hedged (MT) | Average price per tonne HK$ | Contractual amount HK$'000 |
| **Aluminium forward (sold):** | | | | | | |
| Less than 3 months | 5,600 | 15,733 | 88,883 | 7,800 | 13,697 | 106,835 |
| In 3 to 12 months, inclusive | 15,750 | 16,988 | 267,581 | 19,350 | 13,681 | 264,776 |
| In 1 to 2 years, inclusive | 6,700 | 15,444 | 102,340 | 2,150 | 13,681 | 29,421 |
| In 2 to 5 years, inclusive | 450 | 14,680 | 6,604 | 12,000 | 12,769 | 153,213 |

**Interest rate swap contracts and options — cash flow hedges**

The Group has entered into interest rate swap to hedge against unfavorable movements in interest rates payable on floating rate borrowings. The Group is obliged to pay interest at fixed rates and receive interest at floating rates on the notional principal of the swap, with settlement being on a net basis.

The contracts require settlement of net interest receivable or payable at specified intervals which coincide with the dates on which interest is payable on the underlying debt. Such net receipts or payments are recognised as an adjustment to interest expense at the time the floating rates are set for each interval. The floating rates for A$ denominated swap are set by reference to Bank Bill Swap reference rate ("BBSW") and for US$ denominated swap are set by reference to London Interbank Offered Rate ("LIBOR").

Swap currently in place cover 50% of the syndicate loan principal outstanding in CITIC Australia (Portland) Pty Limited and are timed to expire as each loan repayment falls due. The fixed interest rate is fixed at 3.58% over the whole term of the contract and the variable interest rates are set at 6-month LIBOR.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 31. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

**Interest rate swap contracts and options — cash flow hedges (continued)**

Interest rate options are entered from time to time by the coal mining and other joint venture managers on behalf of the joint venture partners to reduce the impact of changes in interest rates on floating rate long- term basis.

At 31 December, the remaining terms, notional principal amounts and other significant terms of the Group's outstanding interest rate swap contracts and options were as follows:

US$ interest rate swap:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Weighted average rate (%) | Notional amount | Weighted average rate (%) | Notional amount |
| Within 1 year | 3.58 | 23,400 | 3.58 | 23,400 |
| In the fifth year | 3.58 | 296,400 | 3.58 | 319,800 |

The terms of the forward contracts and options have been negotiated to match the terms of the commitments. The cash flow hedges of the expected future sales and the expected future purchases were assessed to be highly effective and a net loss, before deferred tax, of HK$78,385,000 was included in the hedging reserve as follows:

| | 2006 | 2005 |
|---|---|---|
| Total fair value losses included in the hedging reserve | 78,385 | 174,468 |
| Total fair value losses included in profit or loss | 111,667 | 13,235 |
| Deferred tax on fair value losses | (9,989) | (56,313) |
| Net losses on cash flow hedges | 180,063 | 131,390 |

### 32. DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured, interest-free and repayable on demand. The carrying amount of the amount due to a minority shareholder approximates to its fair value.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 33. BANK AND OTHER LOANS

| | Notes | Group 2006 | Group 2005 |
|---|---|---|---|
| Bank loans — unsecured # | (a) | 2,465,035 | 772,594 |
| Bank loans — secured * # (Note) | (b) | 878,650 | 686,405 |
| Unsecured loan from Transport Infrastructure Corridor* | (c) | 6,815 | 7,850 |
| Unsecured loan from Exploration Permit for coal * | (d) | 6,242 | 6,775 |
| Unsecured loans from former minority shareholders ^ | (e) | 11,862 | 11,862 |
| Unsecured loan from a minority shareholder ^ | (f) | 61,930 | 61,330 |
| Unsecured loan from CITIC Group # | (g) | 327,003 | 358,800 |
| Unsecured loan from 廣西金孟錳業有限公司^ | (h) | 45,025 | — |
| | | 3,802,562 | 1,905,616 |

| | Company 2006 | Company 2005 |
|---|---|---|
| Bank loans — unsecured # | 1,513,200 | — |

* Fixed rate

\# Floating rate

^ Interest free

Note: Includes the effects of a related interest rate swap as further detailed in note 31 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 33. BANK AND OTHER LOANS (continued)

Notes:

(a) The unsecured bank loans of HK$2,465,035,000 include mainly a revolving term loans denominated in U.S. dollars that totalled US$230,000,000 (HK$1,419,560,000), which was interest bearing at LIBOR + (0.5% to 0.7%). The unsecured bank loans also include trade finance facilities of A$154,218,268 (HK$951,835,000) which were interest bearing at LIBOR and are guaranteed by CITIC Resources Australia Pty Limited.

(b) The secured bank loans of HK$878,650,000 include mainly:

A US$82,000,000 (HK$639,600,000) loan due by 31 December 2008 (extendable in accordance with the terms of the Portland Aluminum Smelter joint venture), which was interest-bearing at LIBOR and secured by a 22.5% participating interest in Portland Aluminium Smelter joint venture.

A loan of RMB243,846,336 (HK$239,050,000) with due date from 17 January 2007 to 14 September 2010, which was interest-bearing at rates ranging from 6.12% to 7.25% per annum and secured by property, plant and equipment of HK$62,252,000, prepaid land lease premiums of HK$1,300,000, a letter of credit, mining rights of HK$135,701,000 and a guarantee provided by a minority shareholder.

(c) The loans were obtained from the State Government of Queensland, Australia. The loans are unsecured, interest bearing at 6.69% per annum and repayable in equal quarterly instalments by 30 September 2012.

(d) The loans were obtained from the manager of the Coppabella and Moorvale coal mines joint venture. The loans are unsecured, interest bearing at 6% per annum and repayable in equal annual instalments by 11 December 2013.

(e) The loans were from the former minority shareholders (details of which are set out in note 40(a)). The loans are unsecured, interest-free and not repayable within one year.

(f) The loan was from a minority shareholder of CITIC Dameng Investments Limited, namely CITIC United Asia Investments Limited (which is an indirect wholly-owned subsidiary of CITIC Group). The loan is unsecured, interest-free and not repayable within one year.

(g) The loan of US$41,000,000 (HK$327,003,000) was granted by CITIC Group, the ultimate holding company of the Group. The loan is unsecured, interest bearing at LIBOR + 1.5% per annum and repayable in equal annual instalments by September 2015.

(h) The loans were from 廣西金孟錳業有限公司. The loans are unsecured, interest-free and repayable on 1 July 2007.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

**33. BANK AND OTHER LOANS (continued)**

| | Group 2006 | Group 2005 |
|---|---|---|
| Bank loans repayable: | | |
| Within one year or on demand | 1,495,017 | 817,476 |
| In the second year | 833,648 | 48,719 |
| In the third to fifth years, inclusive | 1,015,020 | 140,400 |
| Beyond five years | — | 452,404 |
| | 3,343,685 | 1,458,999 |
| Other loans repayable: | | |
| Within one year | 46,796 | 1,917 |
| In the second year | 1,878 | 1,917 |
| In the third to fifth years, inclusive | 6,335 | 5,751 |
| Beyond five years | 3,073 | 5,040 |
| | 58,082 | 14,625 |
| Loans from former minority shareholders, beyond one year | 11,862 | 11,862 |
| Loans from minority shareholders, beyond one year | 61,930 | 61,330 |
| Loans from CITIC Group: | | |
| Within one year | 46,209 | 39,000 |
| In the second year | 38,999 | 39,000 |
| In the third to fifth years, inclusive | 116,998 | 117,000 |
| Beyond five years | 124,797 | 163,800 |
| | 327,003 | 358,800 |
| Total bank and other loans | 3,802,562 | 1,905,616 |
| Portion classified as current liabilities | (1,588,022) | (858,393) |
| Non-current portion | 2,214,540 | 1,047,223 |

| | Company 2006 | Company 2005 |
|---|---|---|
| Bank loans repayable: | | |
| Within one year or on demand | 343,200 | — |
| In the second year | 234,000 | — |
| In the third to fifth years, inclusive | 936,000 | — |
| | 1,513,200 | — |
| Portion classified as current liabilities | (343,200) | — |
| Non-current portion | 1,170,000 | — |

## NOTES TO FINANCIAL STATEMENTS

HK$'000

### 33. BANK AND OTHER LOANS (continued)

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

**Group**

| | Effective interest rate p.a. (%) | Carrying amounts 2006 | Carrying amounts 2005 | Fair values 2006 | Fair values 2005 |
|---|---|---|---|---|---|
| Unsecured loans from Transport Infrastructure Corridor | 5.921 | 5,788 | 7,850 | 5,923 | 7,955 |
| Unsecured loans from Exploration Permit for coal | 5.960 | 5,498 | 6,775 | 5,506 | 6,826 |
| Unsecured loans from CITIC Group | 6.034 | 280,794 | 319,800 | 289,509 | 315,863 |
| Unsecured bank loans | 5.855 | 1,170,000 | — | 1,176,820 | — |
| Secured bank loans | 5.898 | 592,785 | 639,606 | 593,662 | 630,411 |
| Unsecured bank loans | 5.898 | 6,863 | — | 6,955 | — |
| Other secured bank loans | 5.844 – 5.855 | 79,020 | — | 81,091 | — |
| Unsecured loans from former minority shareholders | 5.960 | 11,862 | 11,862 | 11,557 | 11,615 |
| Unsecured loan from a minority shareholder | 5.960 | 61,930 | 61,330 | 59,755 | 60,051 |
| | | 2,214,540 | 1,047,223 | 2,230,778 | 1,032,721 |

**Company**

| | Effective interest rate p.a. (%) | Carrying amounts 2006 | Carrying amounts 2005 | Fair values 2006 | Fair values 2005 |
|---|---|---|---|---|---|
| Unsecured bank loans | 6.034 | 1,170,000 | — | 1,176,820 | — |

## NOTES TO FINANCIAL STATEMENTS
HK$'000

### 34. PROVISIONS

**Group**

| | Long service and leave payments | Provision for rehabilitation cost | Provision for abandonment cost | Total |
|---|---|---|---|---|
| At 1 January 2006 | 45,877 | 73,363 | — | 119,240 |
| Acquisition of a joint venture (note 39(b)) | — | — | 24,682 | 24,682 |
| Additions | 6,715 | 34,365 | 112 | 41,192 |
| Amount written back | — | (23,225) | — | (23,225) |
| Exchange realignment | 3,600 | 5,798 | — | 9,398 |
| At 31 December 2006 | 56,192 | 90,301 | 24,794 | 171,287 |
| Portion classified as current liabilities | (45,476) | (8,262) | — | (53,738) |
| Non-current portion | 10,716 | 82,039 | 24,794 | 117,549 |

### 35. DEFERRED TAX

The movements in the Group's deferred tax liabilities and assets during the year were as follows:

**Deferred tax liabilities — 2006**

| | Accelerated tax depreciation | Fair value adjustments | Total |
|---|---|---|---|
| At 1 January 2006 | 430,687 | 40,298 | 470,985 |
| Acquisitions of subsidiaries (note 39(a)) | 3,465 | 7,788 | 11,253 |
| Deferred tax charged to the consolidated income statement during the year (note 10) | (14,363) | (15,458) | (29,821) |
| Deferred tax credited to equity during the year | — | 30,461 | 30,461 |
| Exchange realignment | 30,613 | 6,442 | 37,055 |
| Gross deferred tax liabilities at 31 December 2006 | 450,402 | 69,531 | 519,933 |

## NOTES TO FINANCIAL STATEMENTS
HK$'000

**35. DEFERRED TAX (continued)**

**Deferred tax assets — 2006**

| | Losses available for offset against future taxable profit |
|---|---|
| At 1 January 2006 | 11,188 |
| Deferred tax charged to the consolidated income statement during the year (note 10) | (1,434) |
| Deferred tax credited to equity during the year | (4,484) |
| Exchange realignment | 1,484 |
| Gross deferred tax assets at 31 December 2006 | 6,754 |
| Net deferred tax liabilities at 31 December 2006 | 513,179 |

**Deferred tax liabilities — 2005**

| | Accelerated tax depreciation | Fair value adjustments | Total |
|---|---|---|---|
| At 1 January 2005 | 449,170 | 62,955 | 512,125 |
| Deferred tax charged to the consolidated income statement during the year (note 10) | 9,317 | (3,971) | 5,346 |
| Deferred tax debited to equity during the year | — | (15,046) | (15,046) |
| Exchange realignment | (27,800) | (3,640) | (31,440) |
| Gross deferred tax liabilities at 31 December 2005 | 430,687 | 40,298 | 470,985 |

**Deferred tax assets — 2005**

| | Losses available for offset against future taxable profit |
|---|---|
| At 1 January 2005 | 14,984 |
| Deferred tax charged to the consolidated income statement during the year (note 10) | (2,925) |
| Exchange realignment | (871) |
| Gross deferred tax assets at 31 December 2005 | 11,188 |
| Net deferred tax liabilities at 31 December 2005 | 459,797 |

## NOTES TO FINANCIAL STATEMENTS
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### 36. SHARE CAPITAL

**Shares**

| | **2006** | **2005** |
|---|---|---|
| Authorised: | | |
| 6,000,000,000 (2005: 6,000,000,000) ordinary shares of HK$0.05 each | 300,000 | 300,000 |
| Issued and fully paid: | | |
| 4,318,184,381 (2005: 4,316,884,381) ordinary shares of HK$0.05 each | 215,909 | 215,844 |

During the year, the subscription rights attaching to 1,300,000 share options were exercised at the subscription price of HK$1.08 per share, resulting in the issue of 1,300,000 ordinary shares of HK$0.05 each for a total cash consideration, before issuance expenses, of HK$1,404,000. The use of the proceeds is for the Group's normal daily operation.

***Share options***

Details of the Company's share option scheme and the share options issued under the scheme are included in note 37 to the financial statements.

### 37. SHARE OPTION SCHEME

On 30 June 2004, a new share option scheme (the "New Scheme") was adopted by the Company to replace the share option scheme which was adopted by the Company on 21 August 1997 (the "Old Scheme"). The Old Scheme was terminated on 30 June 2005.

Pursuant to the New Scheme, the Company may grant options to eligible participants to subscribe for shares in the Company subject to the terms and conditions stipulated therein. A summary of the New Scheme is as follows:

(a) Purpose — To enable the Company to grant options to Eligible Participants (as defined below) as incentives and rewards for their contributions to the Group.

(b) Eligible Participants — Being employees or executives or officers of the Company or any of its subsidiaries (including their respective executive and non-executive directors) and consultants, business associates and advisers who will provide or have provided services to the Group.

## NOTES TO FINANCIAL STATEMENTS
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**37. SHARE OPTION SCHEME (continued)**

| | | | |
|---|---|---|---|
| (c) | Total number of shares available for issue under the New Scheme | — | The total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme shall not exceed 30% of the total number of shares of the Company in issue. |
| (d) | Maximum entitlement of each Eligible Participant | — | The total number of shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant shall not exceed 1% of the total number of shares of the Company in issue at the date of grant. |
| (e) | Period during which the shares must be taken up under an option | — | The period during which an option may be exercised is determined by the board of directors of the Company at its absolute discretion, except that no option may be exercised after 10 years from the date of adoption of the New Scheme, subject to early termination of the New Scheme. |
| (f) | Minimum period for which an option must be held before it can be exercised | — | The minimum period for which an option must be held before it can be exercised is one year. |
| (g) | Basis of determining the exercise price | — | The exercise price must be at least the highest of (i) the closing price of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as stated in the Stock Exchange's daily quotation sheet on the date of the grant, which must be a business day; (ii) the average of the closing prices of the shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a share. |
| (h) | Remaining life of the New Scheme | — | The New Scheme remains in force until 29 June 2014 unless otherwise terminated in accordance with the terms stipulated therein. |

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

## NOTES TO FINANCIAL STATEMENTS
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**37. SHARE OPTION SCHEME (continued)**

On 2 June 2005, the Company granted share options under the New Scheme to its directors, certain consultants and employees to subscribe for a total of 167,000,000 ordinary shares in the Company at the exercise price of HK$1.08 per share. Of these, 45,683,116 ordinary shares to each of Mr. Kwok Peter Viem and Mr. Ma Ting Hung were granted subject to approval by shareholders of the Company in the special general meeting held on 26 July 2005 (the "SGM") in accordance with the Listing Rules and the Rules of the New Scheme. Furthermore, all share options were granted on the basis that certain terms attached thereto required the approval of shareholders of the Company in the SGM as they constituted a change to the terms of the New Scheme. The closing price of the shares immediately before the date of grant was HK$1.07 per share.

On 28 December 2005, the Company granted additional share options under the New Scheme to its directors to subscribe for a total of 10,000,000 ordinary shares in the Company at the exercise price of HK$1.06 per share. The closing price of the shares immediately before the date of grant was HK$1.05 per share.

The 1,300,000 share options exercised during the year resulted in the issue of 1,300,000 ordinary shares of the Company and new share capital of HK$65,000 and share premium of HK$1,625,000 (before issue expenses), as further detailed in note 36 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

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### 37. SHARE OPTION SCHEME (continued)

Movements in the share options during the year end options outstanding under the New Scheme as at the balance sheet date are set out below:

| | Number of share options | | | | | Price per share | | | |
|---|---|---|---|---|---|---|---|---|---|
| Participants | At 1 January 2006 | Exercised during the year | At 31 December 2006 | Date of grant* | Exercise period | Exercise price HK$ | At date of grant** HK$ | Immediately before the exercise date HK$ | At exercise date HK$ |
| **Directors** | | | | | | | | | |
| Kwok Peter Viem | 50,000,000 | – | 50,000,000 | 02-06-2005 | 02-06-2007 to 01-06-2010 | 1.08 | 1.07 | N/A | N/A |
| Ma Ting Hung | 50,000,000 | – | 50,000,000 | 02-06-2005 | 02-06-2007 to 01-06-2010 | 1.08 | 1.07 | N/A | N/A |
| Shou Xuancheng | 10,000,000 | – | 10,000,000 | 02-06-2005 | 02-06-2006 to 01-06-2010 | 1.08 | 1.07 | N/A | N/A |
| Sun Xinguo | 5,000,000 | – | 5,000,000 | 02-06-2005 | 02-06-2006 to 01-06-2010 | 1.08 | 1.07 | N/A | N/A |
| | 5,000,000 | – | 5,000,000 | 28-12-2005 | 28-12-2006 to 27-12-2010 | 1.06 | 1.05 | N/A | N/A |
| | 10,000,000 | – | 10,000,000 | | | | | | |
| Li So Mui | 5,000,000 | – | 5,000,000 | 02-06-2005 | 02-06-2006 to 01-06-2010 | 1.08 | 1.07 | N/A | N/A |
| Mi Zengxin | 10,000,000 | – | 10,000,000 | 02-06-2005 | 02-06-2006 to 01-06-2010 | 1.08 | 1.07 | N/A | N/A |
| Qiu Yiyong | 10,000,000 | – | 10,000,000 | 02-06-2005 | 02-06-2006 to 01-06-2010 | 1.08 | 1.07 | N/A | N/A |
| Zeng Chen | 5,000,000 | – | 5,000,000 | 02-06-2005 | 02-06-2006 to 01-06-2010 | 1.08 | 1.07 | N/A | N/A |
| | 5,000,000 | – | 5,000,000 | 28-12-2005 | 28-12-2006 to 27-12-2010 | 1.06 | 1.05 | N/A | N/A |
| | 10,000,000 | – | 10,000,000 | | | | | | |
| Zhang Jijing | 10,000,000 | – | 10,000,000 | 02-06-2005 | 02-06-2006 to 01-06-2010 | 1.08 | 1.07 | N/A | N/A |
| | 165,000,000 | – | 165,000,000 | | | | | | |
| **Eligible participants** | | | | | | | | | |
| In aggregate | 12,000,000 | (1,300,000) | 10,700,000 | 02-06-2005 | 02-06-2006 to 01-06-2010 | 1.08 | 1.07 | 1.46 — 1.84 | 1.42 — 1.88 |
| | 177,000,000 | (1,300,000) | 175,700,000 | | | | | | |

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The share price at date of grant is the closing price as quoted on the Stock Exchange on the trading day immediately prior to the date of grant of the share options.

## NOTES TO FINANCIAL STATEMENTS

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**37. SHARE OPTION SCHEME (continued)**

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had 175,700,000 share options outstanding under the New Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 175,700,000 additional ordinary shares of the Company, additional share capital of HK$8,785,000 and share premium of HK$180,771,000 (before issue expenses).

On 7 March 2007, the Company issued options under the New Scheme in respect of 20,000,000 shares at the exercise price of HK$3.072 per share. The closing price of the shares immediately before the grant was HK$3.07 per share.

At the date of approval of these financial statements, the Company had 190,200,000 share options outstanding under the Scheme, which represented approximately 3.8% of the Company's shares in issue as at that date.

The following share options of CATL were outstanding under the Pre-Scheme during the year:

| | Number of share options | | | | Price per share | | |
|---|---|---|---|---|---|---|---|
| Participants | At 1 January 2006 Restated | Grant/(exercised) during the year | At 31 December 2006 | Exercise period | Exercise price A$ | Immediately before the exercise date A$ | At exercise date A$ |
| **Directors of the Company** | | | | | | | |
| Zeng Chen | 166,668 | — | 166,668 | 19 June 2005 to 18 June 2007 | 0.350 | N/A | N/A |
| Zhang Jijing | 200,000 | (200,000) | — | 19 June 2005 to 18 June 2007 | 0.350 | 0.525 | 0.520 |
| | 366,668 | (200,000) | 166,668 | | | | |
| **Directors of CATL:** | 366,668 | (186,668) | 180,000 | 19 June 2005 to 18 June 2007 | 0.350 | 0.730 | 0.755 |
| | 140,000 | — | 140,000 | 19 June 2005 to 18 June 2007 | 0.350 | N/A | N/A |
| | 506,668 | (186,668) | 320,000 | | | | |
| **Eligible participants** | 216,666 | — | 216,666 | 19 June 2003 to 18 June 2007 | 0.200 | N/A | N/A |
| | 399,999 | (66,667) | 333,332 | 19 June 2004 to 18 June 2007 | 0.250 | 0.730 | 0.755 |
| | 400,002 | — | 400,002 | 19 June 2004 to 18 June 2007 | 0.300 | N/A | N/A |
| | 1,016,667 | (66,667) | 950,000 | | | | |
| | 1,890,003 | (453,335) | 1,436,668 | | | | |

## NOTES TO FINANCIAL STATEMENTS

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### 38. RESERVES

#### (a) Group

Movements in the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on pages 44 and 45 of the financial statements.

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the holding company of the Group acquired by the Company pursuant to the Group reorganisation prior to the listing of the Company's shares over the nominal value of the share capital of the Company issued in exchange therefor.

#### (b) Company

| | Share premium account | Contributed surplus | Share option reserve | Accumulated losses | Total |
|---|---|---|---|---|---|
| As at 1 January 2005 | 2,561,962 | 172,934 | — | (360,584) | 2,374,312 |
| Equity-settled share options arrangements (note 37) | — | — | 12,662 | — | 12,662 |
| Net profit for the year | — | — | — | 17,079 | 17,079 |
| At 31 December 2005 and 1 January 2006 | 2,561,962 | 172,934 | 12,662 | (343,505) | 2,404,053 |
| Issue of new shares upon exercise of share options (note 37) | 1,625 | — | (286) | — | 1,339 |
| Equity-settled share options arrangements (note 37) | — | — | 26,158 | — | 26,158 |
| Net loss for the year | — | — | — | (152,093) | (152,093) |
| At 31 December 2006 | 2,563,587 | 172,934 | 38,534 | (495,598) | 2,279,457 |

The contributed surplus of the Company represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group reorganisation detailed in note (a) above, over the nominal value of the share capital of the Company issued in exchange therefor. In accordance with the laws of Bermuda, the contributed surplus of the Company may be distributed in cash or in specie in certain prescribed circumstances.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share based payments transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised or be transferred to retained profit should the related options expire or be forfeited.

## NOTES TO FINANCIAL STATEMENTS
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### 39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Acquisitions of subsidiaries

On 28 February 2006, the Group acquired a 48% indirect interest (with effective control via a 80% owned subsidiary) in the Manganese Company. The Manganese Company is engaged in the operation of manganese mining and sale of refined manganese products in the PRC. The purchase consideration was in form of cash, consideration amount of RMB300,000,000 (HK$288,500,000) (note 21) and the cost directly attributable to the acquisition of HK$17,170,000 had been paid in 2005 and recorded as a long term prepayment.

The fair values of the identifiable assets and liabilities of the Manganese Company and its subsidiaries as at the date of acquisition and the carrying amounts immediately before the acquisition were as follows:

| | Notes | Fair value recognised on acquisition | Carrying amount |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 13 | 315,881 | 315,881 |
| Prepaid land lease premiums | 14 | 60,564 | 60,564 |
| Other intangible assets | 15 | 139,904 | 104,013 |
| Cash and bank balances | | 148,230 | 148,230 |
| Inventories | | 16,801 | 16,801 |
| Accounts receivable | | 12,624 | 12,624 |
| Prepayments, deposits and other receivables | | 6,755 | 6,755 |
| Accounts payable | | (19,188) | (19,188) |
| Accrued liabilities and other payables | | (139,279) | (139,279) |
| Tax payable | | (823) | (823) |
| Deferred tax liabilities | 35 | (11,253) | (3,465) |
| Bank and other loans | | (11,114) | (11,114) |
| Minority interests | | (213,432) | (202,191) |
| | | 305,670 | 288,808 |
| Satisfied by deposits paid in 2005 | | 305,670 | |

## NOTES TO FINANCIAL STATEMENTS
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### 39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (a) Acquisitions of subsidiaries (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

| | 2006 | 2005 |
|---|---|---|
| Cash consideration paid | — | — |
| Cash and bank balances acquired | 148,230 | — |
| Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries | 148,230 | — |

Since its acquisition, the Manganese Company and its subsidiaries contributed HK$538,006,000 to the Group's turnover and HK$65,759,000 to the consolidated profit for the year ended 31 December 2006.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been HK$7,529,736,000 and HK$252,978,000, respectively.

The purchase price allocation set out above is still preliminary, pending the finalisation of the valuation of certain property, plant and equipment and intangible assets and the determination of the tax basis of the assets and liabilities acquired.

#### (b) Acquisition of participating interest in a joint venture

On 22 November 2006, the Group acquired a 51% participating interest in the Seram PSC (see details in note 18(e)). The purchase consideration for the acquisition was in form of cash, with HK$757,723,000 paid at the acquisition date and directly attributable costs of HK$117,229,000 taken up as accrued liabilities and other payables.

## NOTES TO FINANCIAL STATEMENTS

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### 39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Acquisition of participating interest in a joint venture (continued)

The fair values of the identifiable assets and liabilities of the 51% participating interest in the Seram PSC as at the date of acquisition and the carrying amounts immediately before the acquisition were as follows:

| | Notes | Fair value recognised on acquisition | Carrying amount |
|---|---|---|---|
| Net assets acquired: | | | |
| Oil and gas properties | 13 | 846,530 | 639,920 |
| Furniture and fixtures | 13 | 2,067 | 2,067 |
| Deferred tax assets | | — | 243,549 |
| Inventories | | 75,611 | 75,611 |
| Prepayments, deposits and other receivables | | 99,415 | 99,415 |
| Accounts payable | | (8,121) | (8,121) |
| Accrued liabilities and other payables | | (26,335) | (26,335) |
| Tax payable | | (8,135) | (8,135) |
| Provisions | 34 | (24,682) | (24,682) |
| Long term other payables | | (81,398) | (81,398) |
| | | 874,952 | 911,891 |
| Satisfied by: | | | |
| Cash | | 757,723 | — |
| Accrued liabilities and other payables | | 117,229 | — |
| | | 874,952 | — |

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the 51% participating interest in the Seram PSC is as follows:

| | 2006 | 2005 |
|---|---|---|
| Cash consideration paid | 757,723 | — |
| Cash and bank balances acquired | — | — |
| Net outflow of cash and cash equivalents in respect of the acquisition of participating interest in a joint venture | 757,723 | — |

The purchase price allocation set out above is still preliminary, pending the finalisation of the valuation relating to the oil and gas reserves and the determination of the tax basis of the assets and liabilities acquired.

## NOTES TO FINANCIAL STATEMENTS
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**39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**

**(c) Disposal of a participating interest in a joint venture**

On 18 February 2006, the Group converted the Dagang Participating Interest into Ivanhoe Shares and Ivanhoe Loan. More details of the transaction are given in note 28 to the financial statements. Net assets disposed of on 18 February 2006 had immaterial changes compared to that of 31 December 2005.

**(d) Major non-cash transactions**

On 15 December 2005, the Group disposed of part of its participating interest in Bowen Basin Joint Venture in consideration of certain ordinary shares of Macarthur. On the same date, the Group also restructured the remaining participating interest in the Bowen Basin Joint Venture into seven separate jointly-controlled assets.

During the year ended 31 December 2006, the Group converted the Dagang Participating Interest into Ivanhoe shares and Ivanhoe Loan. More details of the transaction are given in note 28 to the financial statements.

During the year ended 31 December 2006, Mount Gibson Iron Limited ("Mount Gibson"), a third party, acquired Aztec Resources Limited, an available-for-sale equity investment of the Group, through the issuance of new shares of Mount Gibson to a subsidiary of the Group. Such non-cash share swap transaction resulted in a gain on disposal of available-for-sale equity investments of HK$17,502,000 (note 5).

During the year ended 31 December 2006, the Group has incurred professional fees in connection with the Group's potential investment projects which had been accrued and remained unsettled as at 31 December 2006 in aggregate of HK$50,939,000.

**40. LITIGATION**

(a) In January 1999, Dongguan Xinlian, a wholly-owned subsidiary of the Company held through Wing Lam, received a writ of summons (the "Claim") from China Foreign Trade Development Company (the "Plaintiff") claiming US$6,362,000 (HK$49,624,000) and related interest in respect of six re-export contracts purported to have been entered into by Dongguan Xinlian prior to it becoming a Group subsidiary. A judgment (the "First Judgment") was issued by the Shenzhen Intermediate People's Court in February 2000 against Dongguan Xinlian for a sum of US$3,448,000 (HK$26,894,000). In response, Dongguan Xinlian filed an appeal against the First Judgment with the People's High Court of Guangdong Province.

## NOTES TO FINANCIAL STATEMENTS
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**40. LITIGATION (continued)**

(a) (continued)

In August 2003, certain members of the Plaintiff management team were sentenced to imprisonment for creating forged documents, including those presented by them in relation to the Claim. Despite this, the People's High Court of Guangdong Province issued a judgment (the "Second Judgment") in December 2003 against Dongguan Xinlian for US$4,800,000 (HK$37,440,000) with related interest. In January 2004, Dongguan Xinlian filed another appeal to the State Supreme Court requesting the withdrawal of the Second Judgment and a decision that Dongguan Xinlian is not liable to the Plaintiff in respect of the Second Judgment. In December 2004, the People's High Court of Guangdong Province overturned the Second Judgment and issued a decision that it will re-hear the case.

In December 2005, the People's High Court of Guangdong Province issued a judgment whereby the validity of the Second Judgment against Dongguan Xinlian was maintained (the "Third Judgment").

As advised by the Group's legal advisers, there were a number of conflicts and discrepancies with regard to the Second Judgment and the Third Judgment. The Second Judgment and the Third Judgment were not supported by valid evidence and although the People's High Court of Guangdong Province acknowledged the criminal liabilities of certain members of the Plaintiff's management team (including forging the contracts connected to the Claim), the People's High Court of Guangdong Province did not, contrary to normal legal procedures, take these factors into account when it gave the Third Judgment. In February 2006, Dongguan Xinlian commenced an appeal process against the Third Judgment. In the meantime, the Shenzhen Intermediate People's Court has frozen the assets and machinery of Dongguan Xinlian and the Group has also taken steps to apply for a suspension of the auction of the assets and machinery of Dongguan Xinlian.

The ex-shareholders of Wing Lam (the "Ex-shareholders") have given an undertaking to indemnify the Group against all monetary losses that may arise from the Claim up to HK$11,862,000, being the outstanding other loans from the Ex-shareholders as at 31 December 2006.

In light of the indemnity from the Ex-shareholders and the advice of the Group's legal advisers, the directors believe that the outcome of the Claim will not have a material adverse impact on the financial results of the Group; and accordingly, no provision is considered necessary.

## NOTES TO FINANCIAL STATEMENTS
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**40. LITIGATION (continued)**

(b) The Group has a 7% participating interest in the unified unincorporated co-operative Coppabella and Moorvale coal mine joint venture, the manager and agent of which is Macarthur Coal (C&M Management) Pty Limited (the "Manager"). Roche Mining Pty Limited (the "Contractor") is contracted to mine coal and overburden at the Coppabella mine for a five-year term which commenced on 1 July 2003.

In December 2003, the Manager lodged a notice of dispute with the Contractor under the terms of the mining contract. The claim included recovery of loss and damages for higher production costs and demurrage resulting from a failure of the Contractor to deliver coal in accordance with the contract provisions. Subsequently, the Manager received a series of claims from the Contractor as follows:

***(i) Related to the 2004 financial year***

In June 2004, following rejection by the superintendent of claims from the Contractor, the Contractor lodged a notice of dispute on the Manager under the mining contract. The rejected claim, consisting of nine heads of claim, included higher costs of mining in the 2004 financial year due to alleged delay in access to particular mining areas and alleged adverse mining conditions. The Contractor then referred the dispute to arbitration.

***(ii) Related to the 2005 financial year***

In February 2005, the arbitrator determined that seven of the nine points of claim could proceed to arbitration. The Manager received the detailed points of claim from the Contractor in March 2005 and detailed further particulars in September 2005. In April 2006, the Manager lodged its defence to the points of claim and lodged a counterclaim against the Contractor. In July 2005, the Contractor lodged a further notice of dispute in relation to alleged additional costs resulting from the superintendent's approval of the 2005 financial year mine plan. The claims were rejected by the superintendent and the subsequent dispute was referred to arbitration in August 2005. In April 2006, the Contractor lodged a consolidated and further amended points of claim in relation to both the 2004 financial year claim and the 2005 financial year claim.

***(iii) Related to the 2006 financial year***

In January 2006, the Contractor lodged a further notice of claim in relation to alleged additional costs resulting from the superintendent's approval of the 2006 financial year mine plan. However, the Contractor has not provided to the superintendent the requested details of the nature and quantum of this claim. In October 2006, the Manager lodged its defence to the consolidated claim.

The total value of the three claims noted above for financial years 2004, 2005 and 2006 is in the order of A$100 million (HK$617 million) out of which the Group's share amounted to A$7 million (HK$43 million). Areas of duplication have been identified across these three claims and the Contractor is yet to provide particulars regarding basis and quantum of the third claim.

## NOTES TO FINANCIAL STATEMENTS
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**40. LITIGATION (continued)**

(b) (continued)

The Manager disputes the above claims and will vigorously defend its position in arbitration. The arbitrator has set a date to hear the consolidated 2004 and 2005 financial year claims in June 2007. However, there is no set date for hearing of the consolidated 2006 financial year claim.

In the opinion of the directors, disclosure of any further information about the above matter would be prejudicial to the interests of the Manager and the joint venture participants of the Coppabella and Moorvale coal mine joint venture.

**41. OPERATING LEASE ARRANGEMENTS**

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| Within one year | 12,883 | 9,348 |
| In the second to fifth years, inclusive | 16,803 | 14,827 |
| Beyond five years | 9,848 | 2,423 |
| | 39,534 | 26,598 |

**42. COMMITMENTS**

In addition to the operating lease commitments detailed in note 41 above, the Group had the following capital expenditure commitments:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| Contracted, but not provided for: | | |
| Infrastructure, plant and equipment, share of the jointly-controlled entities | 27,445 | 8,911 |

At 31 December 2006, the Group had authorised but not contracted for commitments in relation to the acquisition of the Potential Assets in Kazakhstan as set out in note 1.

Save as aforesaid, at the balance sheet date, neither the Company nor the Group had other significant commitments (2005: Nil).

## NOTES TO FINANCIAL STATEMENTS
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### 43. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

In addition to matters disclosed elsewhere in the financial statements, during the year, the Group had the following transactions with its related parties:

(a) During the year ended 31 December 2006, the Group made sales in aggregate of HK$1,378,446,000 (2005: HK$1,025,037,000) to a fellow subsidiary, CITIC Metal Company Limited. The sales were made on normal commercial terms and conditions offered to the major customers of the Group.

As at 31 December 2006, the Group had an amount due from the fellow subsidiary of HK$235,785,000 (2005: HK$18,313,000) which has been included in the accounts receivable balance.

(b) Proposed very substantial acquisition regarding the acquisition of Potential Assets located in Kazakhstan

On 27 October 2006, a MOU was entered into by CITIC Group and the Company. Pursuant to the MOU, the Company has been granted a Purchase Right, which is exercisable by the Company during the period of one year (from the date which CITIC Group completed its acquisition of certain potential assets), to acquire the Potential Assets. The Potential Assets principally comprise a 94.6% interest in Karazhanbasmunai JSC, a joint stock company formed under the laws of Kazakhstan, which holds 100% of the mineral rights until 2020 to develop the Karazhanbas Oil and Gas Field in Mangistau Oblast, Kazakhstan. On 29 December 2006, CITIC Group completed the acquisition of the Potential Assets from CCPL. The Company paid US$200,000,000 (HK$1,560,000,000) (note 21) on 31 October 2006 to CITIC Group as the earnest money for the proposed acquisition.

If the Company elects to exercise the Purchase Right, completion of the sale and purchase of the Potential Assets between CITIC Group and the Company will constitute a very substantial acquisition and connected transaction of the Company under the Listing Rules and such transaction will require the approval of the independent shareholders of the Company and the approval of the relevant government and regulatory authorities in Kazakhstan. As at 31 December 2006, the Purchase Right had not been exercised by the Company. Further details are set out in the announcement of the Company dated 1 November 2006.

(c) Warranty income resulting from the conversion of the Dagang Participating Interest into Ivanhoe Shares

On 31 October 2006, an acknowledgement from CITIC Group was received by the Group in respect of a warranty settlement agreement dated 10 October 2006 between the Group and CITIC Group, pursuant to which CITIC Group agreed to compensate the Company for HK$34,320,000 in respect of loss of HK$19,412,000 suffered by the Company in respect of the conversion of the Dagang Participating Interest in Richfirst into Ivanhoe Shares. A loss to the reduction in the number of Ivanhoe Shares converted due to the appreciation of Ivanhoe Shares prices during the delayed conversion period.

As at 31 December 2006, the Group had an outstanding amount due from the ultimate holding company of HK$34,320,000 due to the above (note 23). The outstanding amount was settled subsequent to the balance sheet date.

## NOTES TO FINANCIAL STATEMENTS
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### 43. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

(d) During the year, the Group has paid rental charges of HK$2,814,000 (2005: HK$2,679,000) to 99 King Street Property Management Pty. Ltd., a subsidiary of CITIC Group.

(e) Outstanding balances with related parties:

(i) As disclosed in the consolidated balance sheet, the Group had outstanding advances payable to its minority shareholder of HK$38,174,000 (2005: nil). Details of the advances are included in note 32 to the financial statements.

(ii) Details of the Group's receivables from its fellow subsidiaries, related companies and ultimate holding company of HK$2,066,000 (2005: HK$301,000), HK$51,486,000 (2005: nil) and HK$34,320,000 (2005: nil) respectively, as at the balance sheet date. Details of the receivables are included in notes 21 and 23 to the financial statements.

(iii) Details of the Group's loans from the Company's former minority shareholders, a minority shareholder and the ultimate holding company are included in note 33 to the financial statements.

### 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest- bearing loans, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swap, forward currency and commodity contracts. The purpose is to manage the interest rate, currency and commodity price risks arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that trading in financial instruments shall be undertaken only with due care.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS
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### 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swap, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swap are designated to hedge the underlying debt obligations. At 31 December 2006, after taking into account the effect of the interest rate swap, approximately 50% (2005: 41%) of the Group's interest-bearing borrowings bore interest at fixed rates.

**Foreign currency risk**

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group requires all its operating units to use forward currency contracts to eliminate the foreign currency exposures, for which payment is anticipated more than one month after the Group has entered into a firm commitment for a sale or purchase. The forward currency contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

**Credit risk**

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, collateral is usually not required.

**Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans.

## NOTES TO FINANCIAL STATEMENTS
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### 45. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group entered into the following significant transactions:

(a) On 9 February 2007, the Company entered into the placing and subscription agreement (the "Placing and Subscription Agreement") with United Star International Inc. ("USI") as subscriber, Citigroup Global Markets Asia Limited and UBS AG as underwriters, pursuant to which the Company agreed to allot and issue, and USI agreed to subscribe for 570,000,000 new ordinary shares of the Company of HK$0.05 each at a price of HK$2.46 per new share.

The 570,000,000 new shares represent 13.2% of the issued share capital of the Company as at 8 February 2007, being the last trading day before the signing of the Placing and Subscription Agreement (the "Last Trading Day"). The placing price of HK$2.46 represents (i) a discount of 5.02% to the closing price of HK$2.59 per share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of 2.93% to the average closing price of HK$2.39 per share as quoted on the Stock Exchange for the five trading days immediately prior to and including the Last Trading Day; and (iii) a premium of 2.93% to the average closing price of HK$2.39 per share as quoted on the Stock Exchange for the ten trading days immediately prior to and including the Last Trading Day.

The transaction, completed on 28 February 2007, constituted a discloseable transaction under the Listing Rules. Further details of the transaction are set out in the announcement of the Company dated 9 February 2007.

(b) On 9 February 2007, the Company entered into the subscription agreement (the "Subscription Agreement") with Keentech Group Limited ("Keentech"), a major shareholder of the Company, pursuant to which the Company conditionally agreed to allot and issue, and Keentech agreed to subscribe for 130,000,000 new ordinary shares of the Company of HK$0.05 each (the "Subscription Shares") at a price of HK$2.46 (the "Subscription Price") per subscription share.

The Subscription Shares represent 2.66% of the issued share capital of the Company as at 2 March 2007, being the latest practicable date prior to the printing of the circular of the Company dated 5 March 2007 (the "Latest Practicable Date") or 2.59% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

The Subscription Price represents (i) a discount of 5.02% to the closing price of HK$2.59 per share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of 2.93% to the average closing price of HK$2.39 per share as quoted on the Stock Exchange for the five trading days immediately prior to and including the Last Trading Day; and (iii) a premium of 2.93% to the average closing price of HK$2.39 per share as quoted on the Stock Exchange for the ten trading days immediately prior to and including the Last Trading Day.

The transaction, completed 19 April 2007, constituted a connected transaction under the Listing Rules. The total consideration of the Subscription Shares amounted to HK$319,800,000 and was paid in cash on the completion date. Further details of the transaction are set out in the circular of the Company dated 5 March 2007.

## NOTES TO FINANCIAL STATEMENTS
HK$'000

**45. POST BALANCE SHEET EVENTS (continued)**

(c) On 20 March 2007, an ordinary resolution was passed at the special general meeting of the Company whereby the authorised share capital of the Company of HK$300,000,000 divided into 6,000,000,000 ordinary shares of HK$0.05 each be increased to HK$500,000,000 divided into 10,000,000,000 ordinary shares of HK$0.05 each by the creation of an additional 4,000,000,000 ordinary shares of HK$0.05 each, which such shares shall on their issue rank pari passu in all respects with existing issued shares.

(d) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Tax Law") was approved and will become effective on 1 January 2008. The New Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Tax Law to the Group cannot be reasonably estimated at this stage.

**46. COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

**47. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 20 April 2007.

## FINANCIAL INFORMATION RELATING TO MACARTHUR COAL FOR THE THREE YEARS ENDED 30 JUNE 2007

The following information was extracted from the published audited financial statements of Macarthur Coal for the three years ended 30 June 2007 which was prepared in accordance with Australian Accounting Standards. (References to page numbers in the extract reproduced below are to pages contained in the published annual reports of Macarthur Coal)

**STATEMENTS OF FINANCIAL PERFORMANCE**
FOR THE YEAR ENDED 30 JUNE 2005

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | **2005** | **2004** | **2005** | **2004** |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| Revenue from coal sales | 3 | 370,157 | 222,254 | — | — |
| Cost of coal sold | | (232,806) | (172,683) | — | — |
| Gross profit | | 137,351 | 49,571 | — | — |
| Other revenue from ordinary activities | 3 | 2,546 | 3,093 | 31,549 | 26,111 |
| Distribution expenses | | (29,765) | (14,487) | — | — |
| Administration expenses | | (8,584) | (4,735) | (6,496) | (3,825) |
| Borrowing costs | 4 | (6,588) | (10,814) | (2,647) | (3,745) |
| Other expenses from ordinary activities | | (4,787) | (6,758) | (25) | (17,548) |
| **Profit from ordinary activities before related income tax (expense)/benefit** | | 90,173 | 15,870 | 22,381 | 993 |
| Income tax (expense)/benefit relating to ordinary activities | 6 | (28,753) | (4,127) | (787) | (11) |
| **Net profit** | 21 | 61,420 | 11,743 | 21,594 | 982 |
| Basic earnings per share | 7 | $0.378 | $0.086 | | |
| Diluted earnings per share | 7 | $0.368 | $0.086 | | |

The statements of financial performance are to be read in conjunction with notes to the financial statement set out on pages 67 to 115.

**STATEMENTS OF FINANCIAL POSITION**
AS AT 30 JUNE 2005

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current assets** | | | | | |
| Cash assets | 8 | 18,138 | 11,775 | 17,685 | 11,686 |
| Receivables | 9 | 30,744 | 29,788 | 27,827 | 8,587 |
| Inventories | 10 | 24,075 | 11,312 | — | — |
| Other financial assets | 11 | 78,273 | 33,863 | — | — |
| Current tax assets | 6(b) | — | 7,000 | — | 7,000 |
| Other | 12 | 48,020 | 37,028 | 332 | 642 |
| **Total current assets** | | **199,250** | **130,766** | **45,844** | **27,915** |
| **Non-current assets** | | | | | |
| Receivables | 9 | 7,624 | 2,768 | 126,754 | 113,512 |
| Other financial assets | 11 | 2,783 | 8,906 | 56,385 | 57,871 |
| Property, plant and equipment | 13 | 174,603 | 186,094 | 138 | 78 |
| Exploration, evaluation and development expenditure | 14 | 40,555 | 37,126 | — | — |
| Deferred tax assets | 6(d) | 5,565 | 6,601 | 5,565 | 6,601 |
| Other | 12 | 12,722 | 3,497 | — | 257 |
| **Total non-current assets** | | **243,852** | **244,992** | **188,842** | **178,319** |
| **Total assets** | | **443,102** | **375,758** | **234,686** | **206,234** |
| **Current liabilities** | | | | | |
| Payables | 15 | 61,346 | 28,409 | 1,176 | 548 |
| Interest-bearing liabilities | 16 | 26,662 | 14,816 | 5,627 | — |
| Current tax liabilities | 6(b) | 16,505 | — | 16,505 | — |
| Provisions | 17 | 1,456 | 1,678 | 198 | 65 |
| Other financial liabilities | 18 | 4,807 | 9,404 | — | — |
| Other | 19 | 20,221 | 10,452 | — | — |
| **Total current liabilities** | | **130,997** | **64,759** | **23,506** | **613** |
| **Non-current liabilities** | | | | | |
| Payables | 15 | — | 10,000 | — | 1,563 |
| Interest-bearing liabilities | 16 | 9,790 | 67,370 | — | 29,871 |
| Deferred tax liabilities | 6(c) | 25,011 | 17,885 | 25,011 | 17,885 |
| Provisions | 17 | 10,730 | 8,397 | 39 | 48 |
| Other financial liabilities | 18 | 12,698 | 18,501 | — | — |
| Other | 19 | 4,723 | 9,395 | — | — |
| **Total non-current liabilities** | | **62,952** | **131,548** | **25,050** | **49,367** |
| **Total liabilities** | | **193,949** | **196,307** | **48,556** | **49,980** |
| **Net assets** | | **249,153** | **179,451** | **186,130** | **156,254** |
| **Equity** | | | | | |
| Contributed equity | 20 | 181,086 | 155,053 | 181,086 | 155,053 |
| Retained profits | 21 | 68,067 | 24,398 | 5,044 | 1,201 |
| **Total equity** | | **249,153** | **179,154** | **186,130** | **156,254** |

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 67 to 115.

## STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| **Cash flows from operating activities** | | | | | |
| Cash receipts in the course of operations | | 361,709 | 218,857 | 2,051 | 1,725 |
| Cash payments in the course of operations | | (259,095) | (190,445) | (6,036) | (4,092) |
| Dividends received | | — | — | 19,034 | 17,586 |
| Interest received | | 2,385 | 1,038 | 10,518 | 6,842 |
| Borrowing costs paid | | — | (590) | — | (30) |
| Income tax refunded | 6(b) | 8, 847 | — | 8,847 | — |
| Income taxes paid | 6(b) | (5,862) | (9,913) | (5,862) | — |
| **Net cash provided by/(used in) operating activities** | 25(b) | **107,984** | **18,947** | **28,552** | **22,031** |
| **Cash flows from investing activities** | | | | | |
| Payments for property, plant and equipment | | (5,848) | (15,008) | (85) | (35) |
| Proceeds from property, plant and equipment | | — | 12 | — | 11 |
| Payments for acquisition of joint venture interests and related assets (net of cash) | | — | (19,638) | — | — |
| Proceeds from disposal of joint venture interests and related assets (net of cash) | | — | 1,404 | — | — |
| Payments for exploration, evaluation and development expenditure | | (3,640) | (3,993) | — | — |
| Payments for other financial assets | | (40,674) | (10,233) | — | — |
| Advances to controlled entities | | — | — | (4,494) | (42,609) |
| Advances to related entities | | (6,408) | — | — | — |
| **Net cash provided by/(used in) investing activities** | | **(56,570)** | **(47,456)** | **(4,579)** | **(42,633)** |
| **Cash flows from financing activities** | | | | | |
| Net proceeds from issue of shares | | 1,789 | 29,993 | 1,789 | 29,993 |
| Proceeds from borrowings | | 22,180 | 54,422 | — | 9,600 |
| Repayment of borrowings | | (43,826) | (52,002) | — | (9,600) |
| Payment of borrowing costs: | | | | | |
| • Convertible notes | | (2,012) | (3,002) | (2,012) | (3,002) |
| • Other | | (2,602) | (2,760) | — | (145) |
| Proceeds from other financial liabilities | | — | 10,355 | — | — |
| Payments for other financial liabilities | | (2,829) | (2,261) | — | — |
| Dividends paid | | (17,751) | (1,286) | (17,751) | (1,286) |
| **Net cash provided by/(used in) financing activities** | | **(45,051)** | **33,459** | **(17,974)** | **25,560** |
| **Net increase/(decrease) in cash held** | | 6,363 | 4,950 | 5,999 | 4,958 |
| **Cash at the beginning of the financial year** | | 11,775 | 6,825 | 11,686 | 6,728 |
| **Cash at the end of the financial year** | 25(a) | **18,138** | **11,775** | **17,685** | **11,686** |

The statements of cash flow are to be read in conjunction with the notes to the financial statements set out on pages 67 to 115.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of the financial report are:

**a) Basis of preparation**

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

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

Accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy as set out in Note 2, are consistent with those of the previous year.

**b) Principles of consolidation**

***Controlled entities***

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

***Associates***

Associates are those entities, other than partnerships, over which the consolidated entity exercises significant influence and which are not intended for sale in the near future.

In the consolidated financial statements, investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount.

***Joint ventures***

A Joint Venture is either an entity or operation that is jointly controlled by the consolidated entity.

The consolidated entity's interests in unincorporated joint venture operations are brought to account by including its proportionate share of joint ventures' assets, liabilities and expenses and the consolidated entity's revenue from the sale of its share of output on a line-by-line basis, from the date joint control commences to the date joint control ceases.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b) Principles of consolidation (continued)**

***Transactions eliminated on consolidation***

Unrealised gains and losses and inter-entity balances and effects of transactions with or between controlled entities are eliminated in full on consolidation.

Unrealised gains resulting from transactions with associates are eliminated to the extent of the consolidated entity's interest. Unrealised gains relating to associates are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

**c) Revenue recognition**

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

***Sale of goods***

Revenue from the sale of coal is recognised (net of penalties, returns, discounts, allowances and hedging gains/losses) when control of the goods passes to the customer.

***Interest revenue***

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

***Sale of non-current assets***

The gross proceeds of non-current asset sales are recognised as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

***Dividends***

Dividend revenue is recognised net of any franking credits.

Revenue from dividends and distributions from controlled entities is recognised by the parent entity when they are declared by the controlled entities.

Revenue from dividends from other investments is recognised when dividends are received.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**e) Foreign currency**

***Transactions***

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change, except where:

- hedging specific anticipated transactions (refer Note 1(f))
- relating to acquisition of qualifying assets (refer Note 1(g)).

***Natural hedge***

A specific natural hedge exists between the United States dollar denominated cash advance term loan (see Note 16) and United States dollar denominated coal sales revenue. The natural hedge position was established when the cash advance term loan was restructured and the Australian dollar denominated debt was redrawn as a United States dollar denominated debt and upon further drawings of United States dollar denominated debt. The United States dollar denominated debt has been brought to account at the 30 June 2005 exchange rate with the exchange gain or loss arising from the difference between the hedge rate and the year end rate being carried forward as a deferred unrealised foreign exchange gain or loss (Note 19).

The mandatory minimum repayment schedule of the cash advance term loan has been used to identify the future coal sales to which the natural hedge relates. When sales occur, they will be translated at the hedge rate (being the rate at the time of loan drawdown) and any gains or losses will be offset against the carried forward deferred foreign exchange gains or losses arising on the revaluation of the United States dollar denominated debt.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### f) Derivatives

The consolidated entity is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The consolidated entity uses forward foreign exchange contracts to hedge foreign exchange risk and interest rate options and interest rate swaps to hedge interest rate risk. Derivative financial instruments are not held for speculative purposes.

***Hedges***

*Anticipated transactions*

Transactions are designated as a hedge of the anticipated specific purchase or sale of goods or services, purchase of qualifying assets, or an anticipated interest transaction, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated.

Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statement of financial position from the date of inception of the hedge transaction. The net receivables or payables are revalued using the foreign currency rate current at reporting date.

The net amounts receivable or payable under open swaps and the associated deferred gains or losses are not recorded on the statement of financial position until the hedge transaction occurs. When recognised the net receivables or payables are revalued using the interest rates current at reporting date.

Option premiums are recorded when paid and included in the measurement of the transaction when it occurs.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains and losses relating to the hedged transaction are recognised immediately in the statement of financial performance.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains and losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the statement of financial performance for that period.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**f) Derivatives (continued)**

***Hedges (continued)***

*Anticipated transactions (continued)*

Where a hedge is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included in the statement of financial performance for that period.

Gains and losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains and losses are recognised immediately in the statement of financial performance.

*Other hedges*

All other hedge transactions are initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at reporting date are valued at the spot rate ruling on that date and any gains or losses are brought to account in the statement of financial performance.

Costs or gains arising at the time of entering into the hedge are deferred and amortised over the life of the hedge.

**g) Borrowing costs**

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, finance charges in respect of finance leases and foreign exchange differences net of hedged amounts on borrowings.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

Where interest rates are hedged or swapped, the borrowing costs are recognised net of any effect of the hedge or the swap.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised as "deferred expenditure" and amortised over the life of the borrowings or over five years, whichever is lesser.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**g) Borrowing costs (continued)**

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs associated with qualifying assets are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is the amount incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

Exploration and evaluation expenditure carried forward relating to areas of interest which have not reached a stage permitting reliable assessment of economic benefits are not qualifying assets.

**h) Taxation**

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effects of capital losses are not recorded unless realisation is virtually certain.

Capital gains tax, if applicable, is provided for in establishing the period’s income tax expense when an asset is sold.

***Tax consolidation***

The Company is the head entity in the tax-consolidated group comprising the Company and all of its Australian wholly-owned subsidiaries set out in Note 28. The head entity recognises all of the current and deferred tax assets and liabilities of the tax consolidated group (after elimination of intragroup transactions).

The tax-consolidated group has entered into a tax sharing agreement (TSA) that requires wholly-owned subsidiaries to make contributions to the head entity for current tax assets and liabilities and movements in deferred tax balances arising from external transactions during the year.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**h) Taxation (continued)**

***Tax consolidation (continued)***

Under the TSA, the contributions are calculated on a "stand-alone basis" so that the contributions are equivalent to the tax balances generated by external transactions entered into by wholly-owned subsidiaries. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the TSA are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

**i) Earnings per share**

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

**j) Acquisitions of assets**

***Initial costs***

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the consolidated entity if a similar borrowing were obtained from an independent financier under comparable terms and conditions. The unwinding of the discount is treated as interest expense.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j) Acquisitions of assets (continued)**

***Initial costs (continued)***

The costs of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset. Borrowing costs are capitalised to qualifying assets as set out in Note 1(g).

Expenditure, including that on internally generated assets, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Subsequent additional costs

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years, otherwise, expensed as incurred.

**k) Use and revision of accounting estimates**

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

**l) Receivables**

The collectability of debts is assessed at reporting date and where appropriate, specific provision is made for any doubtful accounts.

***Trade debtors***

Trade debtors to be settled within 90 days are carried at amounts due.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**m) Inventories**

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

Cost is allocated on a monthly first in and first out basis and includes direct material, overburden removal, coal mining, coal processing, labour, related transportation costs to the point of sale and other fixed and variable overhead costs directly related to mining activities. The site overheads and rehabilitation cost component of inventory is allocated using standard costing. Depreciation and amortisation are allocated to inventories on a units of production basis.

Net realisable value is determined on each inventory lines' normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

**n) Investments**

***Controlled entities***

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Refer Note 1(q) and 28.

***Associates***

In the Company's financial statements, investments in unlisted shares of associates are carried at the lower of cost and recoverable amount. Refer Note 29.

***Joint ventures***

In the consolidated entity's financial statements, investments in joint venture operations are accounted for as set out in Note 1(b).

**o) Leased assets**

***Finance leases***

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

***Operating leases***

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**p) Exploration, evaluation and development expenditure**

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written-off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written-off to the extent that they will not be recoverable in the future.

When production commences, carried forward exploration, evaluation and development costs are transferred to Property, Plant and Equipment - Mining Property. Any exploration conducted within an operating Mining Lease area is expensed as incurred.

**q) Recoverable amount of non-current assets valued on cost basis**

The carrying amounts of non-current assets valued on the cost basis, other than exploration and evaluation expenditure carried forward (refer Note 1(p)), are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written-down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value, except where specifically stated.

***Cost versus fair value***

Except where specifically stated, non-current assets are recorded at the lower of cost and recoverable amount.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**r) Depreciation and amortisation**

***Complex assets***

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

***Useful lives***

All assets, excluding freehold land, have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives, taking into account estimated residual values, with the exception of carried forward exploration, evaluation and development expenditure in the production phase which is depreciated on a units of production basis over the life of the economically recoverable reserves being 74,524,110 (2004: 78,504,300) tonnes for the Coppabella Mine and 19,427,050 (2004: 20,652,343) for the Moorvale Mine at the beginning of the financial year or, where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Amortisation is not charged on costs carried forward in respect of areas of interest in the exploration or development phases until commercial production commences.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only (refer Note 4(c)). Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset (eg inventory stocks) as an allocation of production overheads.

The depreciation/amortisation rates or useful lives used for each class of asset are as follows:

| | **2005** | **2004** |
|---|---|---|
| *Property, plant and equipment* | | |
| Mining property | 7 — 15 years | 8 — 16 years |
| Buildings and infrastructure | 6.5% — 40% | 6.5% — 40% |
| Plant and equipment | 13% — 40% | 13% — 40% |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**s) Overburden in advance**

Expenditure incurred in the removal of overburden from coal deposits is deferred, and expensed in operating expenditure as the coal is extracted. The balance of the amount deferred is reviewed at each reporting date to determine the amount (if any) which is no longer recoverable out of future revenue. Any amounts so determined are written-off.

**t) Payables**

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 30 days.

**u) Interest bearing liabilities**

Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in "Other creditors and accruals".

**v) Employee benefits**

***Wages, salaries and annual leave***

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at the reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

***Long service leave***

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**v) Employee benefits (continued)**

***Directors' Option Plan, Executive Option Plan and Employee Share Plan***

Information relating to the plans is set out in Note 33.

Transaction costs associated with issuing shares and options are recognised in equity subject to the extent of the proceeds received, otherwise expensed. Other administrative costs are expensed.

***Superannuation plan***

The Company and its controlled entities contribute to several defined contribution superannuation plans. Contributions are charged against income as they are made.

**w) Provisions**

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, being risk free rates on national government bonds most closely matching the expected future payments, except for certain mine site rehabilitation as noted below. The unwinding of the discount is treated as part of the expense related to the particular provision.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the recovery receivable is recognised as an asset when it is probable that the recovery will be received and is measured on a basis consistent with the measurement of the related provision.

In the statement of financial performance, the expense recognised in respect of a provision is presented net of the recovery. In the statement of financial position, the provision is recognised net of the recovery receivable only when the entity:

- has a legally recognised right to set-off the recovery receivable and the provision; and
- intends to settle on a net basis, or to realise the asset and settle the provision simultaneously.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**w) Provisions (continued)**

***Dividends***

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

***Mine site rehabilitation***

Provisions are made for the estimated cost of rehabilitation relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated, as if the mine was shutdown at reporting date. Provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs per hectare to rehabilitate such areas. The estimated cost of rehabilitation includes the current cost of recontouring, topsoiling and revegetation employing current technology while having regard to current legislative requirements. Only the costs per hectare for rehabilitation of long term building and infrastructure areas are discounted to their present value and are capitalised as an asset and amortised over the economic life of the mine on a units of production basis. Changes in estimates are dealt with on a prospective basis as they arise.

Significant uncertainty exists as to the amount of rehabilitation obligations which will be incurred due to the impact of changes in environmental legislation.

Assumptions have been made as to the remaining life of existing sites based on studies conducted by independent technical advisors.

**x) Financial instruments issued**

***Other financial instruments***

Where financial instruments, such as convertible notes issued by the Company, are redeemable at the option of the holder but the Company has the right to either convert them to ordinary shares or to pay the cash equivalent, the proceeds received are classified as a liability and related distributions as interest expense.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 2. CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies since the end of the previous financial year.

### 3. REVENUE FROM ORDINARY ACTIVITIES

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Revenue from operating activities** | | | | |
| Sale of coal | 370,157 | 222,254 | — | — |
| **Other revenues** | | | | |
| From operating activities: | | | | |
| • Management fee — related parties | 158 | 122 | 1,994 | 1,672 |
| • Dividends — related parties | — | — | 19,034 | 17,586 |
| • Net foreign exchange gains | — | 517 | — | — |
| • Interest: | | | | |
|   • Related parties | — | — | 9,368 | 6,400 |
|   • Other parties | 2,385 | 1,038 | 1,150 | 442 |
| • Sundry — other parties | 3 | — | 3 | — |
| From outside operating activities: | | | | |
| • Gross proceeds from sale of non-current assets | — | 1,416 | — | 11 |
| Total other revenues | 2,546 | 3,093 | 31,549 | 26,111 |
| **Total revenue from ordinary activities** | **372,703** | **225,347** | **31,549** | **26,111** |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 4. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **a) Individually significant expenses included in profit from ordinary activities before income tax expense** | | | | |
| • Capitalised borrowing costs written off | — | 1,912 | — | — |
| • Write-off of overburden in advance | 3,120 | 2,845 | — | — |
| • Write-down in value of investments in controlled entities to recoverable amount | — | — | — | 17,521 |
| **b) Profit from ordinary activities before income tax expense/benefit has been arrived at after charging/(crediting) the following items (including items in (a) above):** | | | | |
| • Borrowing costs relating to convertible notes | 2,012 | 3,002 | 2,012 | 3,002 |
| • Borrowing costs relating to bank loans and other | 4,576 | 7,812 | 635 | 743 |
| | 6,588 | 10,814 | 2,647 | 3,745 |
| • Depreciation: | | | | |
| • Mining property | 9,007 | 5,726 | — | — |
| • Buildings and infrastructure | 6,118 | 5,573 | — | — |
| • Plant and equipment | 229 | 313 | 25 | 21 |
| | 15,354 | 11,612 | 25 | 21 |
| • Net foreign exchange losses | 1,782 | — | — | — |
| • Net expense from movements in provision for: | | | | |
| • Rehabilitation | 1,987 | 1,709 | — | — |
| • Employee entitlements | 124 | 21 | 124 | 2 1 |
| • Net bad and doubtful debts expense including movement in provision for doubtful debts | 1,471 | — | — | — |
| • Government royalties on mineral sales or production | 20,822 | 11,587 | — | — |
| • Operating lease rental expenses | 499 | 423 | 177 | 145 |
| • Exploration expenditure | 152 | 258 | — | — |
| • Net (gain)/loss on disposal of non-current assets | 23 | 2,002 | — | (5) |
| • Write-down in value of investments in controlled entities to recoverable amount | — | — | — | 17,521 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 4. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

#### c) Revision of accounting estimate

***Restatement of economic reserves***

Economic recoverable reserves for the Moorvale Mine have decreased from 26,131,614 (Macarthur Coal Limited share: 20,652,343) tonnes on 1 July 2004 to 24,460,000 tonnes (Macarthur Coal Limited share: 19,427,050). The effect of this revision reduces amortisation expense by approximately A$48,000 for the year ended 30 June 2005.

### 5. AUDITORS' REMUNERATION

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$ | A$ | A$ | A$ |
| **Audit services:** | | | | |
| • Auditors of the Company — KPMG | | | | |
| • Audit and review of the financial reports (A) | | | | |
| — Current year | 132,000 | 120,510 | 132,000 | 120,510 |
| — Prior year | — | 4,500 | — | 4,500 |
| | 132,000 | 125,010 | 132,000 | 125,010 |
| **Other services:** | | | | |
| • Auditors of the Company — KPMG | | | | |
| • Other assurance services (A) (B) | 62,413 | 55,800 | 62,413 | 55,800 |
| • Taxation services (A) | 66,520 | 56,827 | 66,520 | 56,827 |
| • Joint venture operations (D) | | | | |
| — Audit | 68,862 | 66,446 | — | — |
| — Other services (E) | 32,734 | 19,021 | — | — |
| • KPMG related entities | | | | |
| • Other (F) | 55,136 | — | 55,136 | — |
| • Due diligence (C) | — | 26,578 | — | 26,578 |
| | 285,665 | 224,672 | 184,069 | 139,205 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**5. AUDITORS' REMUNERATION (continued)**

(A) All auditors' remuneration is borne by the Company for the consolidated entity.

(B) Other assurance services include advice in relation to accounting, AIFRS, corporate governance, continuous disclosure and risk management issues.

(C) Due diligence services relate to the rights issue in the prior year.

(D) Represents the consolidated entity's share of remuneration paid for audit and other services incurred by joint ventures.

(E) Represents tax advice and assistance with financial modelling.

(F) Represents license and other fees paid to a related entity, of which KPMG holds a 50% interest, for purchase of tax compliance software by the consolidated entity.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 6. TAXATION

#### a) Income tax expense/(benefit)

| | Consolidated 2005 A$'000 | Consolidated 2004 A$'000 | The Company 2005 A$'000 | The Company 2004 A$'000 |
|---|---|---|---|---|
| Prima facie income tax expense calculated at 30% (2004: 30%) on the profit from ordinary activities | 27,052 | 4,761 | 6,714 | 298 |
| Increase in income tax expense due to: | | | | |
| • Non allowable amortisation of mining property | 2,343 | 1,437 | — | — |
| • Other | 1,236 | 1,092 | 17 | 19 |
| • Income tax expense related to current and deferred tax transactions of the wholly owned subsidiaries in the tax consolidated group | — | — | 27,996 | 4,117 |
| • Write-down of investments in controlled entities | — | — | — | 5,256 |
| Decrease in income tax expense due to: | | | | |
| • Recovery of income tax expense under Tax Sharing Agreement | — | — | (27,996) | (4,117) |
| • Deduction for float costs | (304) | (295) | (304) | (295) |
| • Non assessable dividends | — | — | (5,710) | (5,276) |
| • Under/(over) provision prior year | 157 | (116) | 70 | 9 |
| • Other | (1,731) | (964) | — | — |
| Income tax expense/(revenue) attributable to profit from ordinary activities | 28,753 | 5,915 | 787 | 11 |
| Deferred tax expense/(benefit) arising from the resetting of the tax values of assets as a result of the tax consolidation legislation implemented on 1 July 2002 | — | (1,788) | — | — |
| **Total income tax expense/(benefit) attributable to profit from ordinary activities** | **28,753** | **4,127** | **787** | **11** |
| Income tax expense/(revenue) attributable to profit from ordinary activities is made up of: | | | | |
| • Current income tax provision | 20,434 | 4,017 | 20,434 | 4,153 |
| • Deferred income tax provision | 7,126 | 3,066 | (107) | 13 |
| • Future income tax benefit | 1,036 | (1,052) | 14 | (47) |
| • Tax related payable/(recoverable) to/(from) wholly owned subsidiaries | — | — | (19,624) | (4,117) |
| • Under/(over) provision prior year | 157 | (116) | 70 | 9 |
| • Deferred tax expense/(benefit) arising from the resetting of the tax values of assets as a result of the tax consolidation legislation implemented on 1 July 2002 | — | (1,788) | — | — |
| | 28,753 | 4,127 | 787 | 11 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**6. TAXATION (continued)**

**b) Current tax liabilities/(assets)**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Provision for current income tax payable/(receivable)** | | | | |
| Movements during the year | | | | |
| • Balance at the beginning of the year | (7,000) | 1,248 | (7,000) | 1,384 |
| • Under/(over) provision in prior period | 157 | (1,202) | 70 | (1,384) |
| • Income tax paid | (5,862) | (9,913) | (5,862) | — |
| • Income tax received | 8,847 | — | 8,847 | — |
| • Current year's income tax provision | 20,363 | 2,867 | 722 | — |
| • Income tax expense related to wholly-owned subsidiaries in a tax consolidated group | — | — | 19,728 | (7,000) |
| | 16,505 | (7,000) | 16,505 | (7,000) |

**c) Deferred tax liabilities**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Provision for deferred income tax** | | | | |
| Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items: | | | | |
| • Difference in depreciation and amortisation of property, plant and equipment for accounting and income tax purposes | 2,069 | 1,256 | — | 1 |
| • Expenditure currently deductible for tax but deferred and amortised for accounting purposes | 21,166 | 14,576 | — | — |
| • Sundry items | 1,776 | 2,053 | — | 14 |
| • Provision for deferred income tax relating to timing differences attributable to wholly owned subsidiaries under tax consolidation | — | — | 25,011 | 17,870 |
| | 25,011 | 17,885 | 25,011 | 17,885 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**6. TAXATION (continued)**

**d) Deferred tax assets**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Future income tax benefit** | | | | |
| Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% on the following items: | | | | |
| • Provisions and accrued employee entitlements not currently deductible | 3,656 | 3,022 | 71 | 34 |
| • Difference in depreciation and amortisation of property, plant and equipment for accounting and income tax purposes | — | 31 | 83 | 31 |
| • Sundry items | 283 | 384 | 27 | 8 |
| • Tax losses carried forward | 1,626 | 3,164 | — | — |
| • Future income tax benefit relating to timing differences attributable to wholly-owned subsidiaries under tax consolidations | — | — | 5,384 | 6,528 |
| | 5,565 | 6,601 | 5,565 | 6,601 |
| **Future income tax benefit not taken to account** | | | | |
| The potential future income tax benefit in a controlled entity, which is a company, arising from timing differences has not been recognised as an asset because the recovery of the timing difference is not assured beyond any reasonable doubt: | | | | |
| • Capital losses | 32 | 32 | — | — |
| | 32 | 32 | — | — |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 6. TAXATION (continued)

#### d) Deferred tax assets (continued)

The potential future income tax benefit will only be obtained if:

(i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;

(ii) the relevant company continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the relevant company in realising the benefit.

### 7. EARNINGS PER SHARE

| | Consolidated | |
|---|---|---|
| | **2005** | **2004** |
| | A$'000 | A$'000 |
| **Earnings used as the numerator in calculating earnings per share (basic and diluted earnings per share)** | | |
| Net profit | 61,420 | 11,743 |
| | **Number** | **Number** |
| **Weighted average number of shares used as the denominator** | | |
| **Number for basic earnings per share** | | |
| Ordinary shares | 162,350,704 | 136,907,425 |
| **Number for diluted earnings per share** | | |
| Ordinary shares | 162,350,704 | 136,907,425 |
| Effect of directors' and executives share options on issue | 501,247 | 90,391 |
| Effect of convertible notes on issue | 3,880,810 | — |
| | 166,732,761 | 136,997,816 |

During the financial year 16,719,850 convertible notes were converted to ordinary shares. The basic EPS calculation includes these notes converted to shares (2004: 54,000).

During the financial year 1,380,000 options were converted to ordinary shares. The diluted EPS calculation includes that portion of these options assumed to be issued for nil consideration, weighted with references to the date of conversion. The weighted average number included is 411,650 (2004: 21,456).

| The following convertible notes and options issued have not been included in the calculation of diluted EPS as they are not dilutive: | 2005 | 2004 |
|---|---|---|
| • Directors' Option Plan | — | 600,000 |
| • Executive Option Plan | — | 600,000 |
| • Convertible Notes | — | 20,600,660 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 8. CASH ASSETS

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Cash at bank and in hand | 905 | 185 | 452 | 98 |
| Bank cash deposit account at call, paying interest at 5.5% (2004: 5.2%) at 30 June 2005 | 4,675 | 4,632 | 4,675 | 4,630 |
| Bank bills maturing in 30 days paying interest at 5.6% (2004: 5.5%) at 30 June 2005 | 12,558 | 6,958 | 12,558 | 6,958 |
| | 18,138 | 11,775 | 17,685 | 11, 686 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 9. RECEIVABLES

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Trade debtors | 23,274 | 18,416 | — | — |
| Other debtors | 5,595 | 3,239 | 226 | — |
| Tax related receivables | — | — | 27,324 | 8,273 |
| Amounts receivable from associated and related entities – unsecured | 1,875 | 8,133 | 277 | 314 |
| | 30,744 | 29,788 | 27,827 | 8,587 |
| **Non-current** | | | | |
| Security deposits | 85 | 95 | — | — |
| Loans to employees – Employee Share Plan (refer Note 33) | 7 | 26 | 7 | 26 |
| Amounts receivable from controlled entities – unsecured | — | — | 126,747 | 113,486 |
| | 92 | 121 | 126,754 | 113,512 |
| Amounts receivable from associated and related entities – unsecured | 8,434 | 2,647 | — | — |
| Less Provision for doubtful debts | (902) | — | — | — |
| | 7,624 | 2,768 | 126,754 | 113,512 |

Other debtors amounts mainly comprise GST refund due from the Australian Taxation Office and other amounts receivable in the ordinary course of business for usual operating activities. Collateral is not obtained.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 10. INVENTORIES

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Coal stocks, at cost | 24,075 | 11,312 | — | — |

Refer to Note 16 for details of security over inventories.

### 11. OTHER FINANCIAL ASSETS

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Cash and deposits – not at call | 58,630 | 18,417 | — | — |
| Foreign currency contracts | 19,643 | 15,446 | — | — |
| | 78,273 | 33,863 | — | — |
| **Non-current** | | | | |
| Investments in controlled entities – at cost | — | — | 56,385 | 57,871 |
| Foreign currency contracts | 2,783 | 8,906 | — | — |
| | 2,783 | 8,906 | 56,385 | 57,871 |

Refer to Note 16 for details of security over investments in controlled entities.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**12. OTHER ASSETS**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Prepayments | 1,814 | 494 | 75 | 73 |
| Deferred expenditure | 257 | 726 | 257 | 569 |
| Overburden in advance | 45,949 | 35,808 | — | — |
| | 48,020 | 37,028 | 332 | 642 |
| **Non-current** | | | | |
| Deferred expenditure | 2,239 | 1,800 | 1,452 | 1,171 |
| Less accumulated amortisation | (2,239) | (1,296) | (1,452) | (914) |
| | — | 504 | — | 257 |
| Prepayments | 5,392 | — | — | — |
| Overburden in advance | 7,330 | 2,993 | — | — |
| | 12,722 | 3,497 | — | 257 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 13. PROPERTY, PLANT AND EQUIPMENT

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Mining property (including mining rights and coal reserves) | | | | |
| • At cost | 139,045 | 139,649 | — | — |
| Less accumulated depreciation | (26,177) | (16,389) | — | — |
| | 112,868 | 123,260 | — | — |
| Freehold land | | | | |
| • At cost | 4,953 | 4,923 | — | — |
| Buildings and infrastructure | | | | |
| • At cost | 65,204 | 64,688 | — | — |
| Less accumulated depreciation | (14,315) | (8,111) | — | — |
| | 50,889 | 56,577 | — | — |
| Plant and equipment | | | | |
| • At cost | 2,159 | 1,597 | 218 | 133 |
| Less accumulated depreciation | (723) | (491) | (80) | (55) |
| | 1,436 | 1,106 | 138 | 78 |
| Capital works in progress | | | | |
| • At cost | 4,457 | 228 | — | — |
| | 174,603 | 186,094 | 138 | 78 |

Refer to Note 16 for details of security over property, plant and equipment.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Reconciliations** | | | | |
| Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below: | | | | |
| • Mining property | | | | |
| Carrying amount at beginning of year | 123,260 | 83,708 | — | — |
| • Additions, including acquisitions through acquisition of interest in joint venture | — | 17,326 | — | — |
| • Transfer from development | — | 29,468 | — | — |
| • Disposals | (604) | (1,081) | — | — |
| • Depreciation | (9,788) | (6,161) | — | — |
| Carrying amount at end of year | 112,868 | 123,260 | — | — |
| • Freehold land | | | | |
| Carrying amount at beginning of year | 4,923 | 5,065 | — | — |
| • Additions | 30 | 55 | — | — |
| • Disposals | — | (197) | — | — |
| Carrying amount at end of year | 4,953 | 4,923 | — | — |
| • Buildings and infrastructure | | | | |
| Carrying amount at beginning of year | 56,577 | 28,403 | — | — |
| • Additions, including acquisitions through acquisition of interest in joint venture | 71 | 18,840 | — | — |
| • Transfer from capital works in progress | 507 | 15,177 | — | — |
| • Disposals | (62) | (1,347) | — | — |
| • Depreciation | (6,204) | (4,496) | — | — |
| Carrying amount at end of year | 50,889 | 56,577 | — | — |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| • Plant and equipment | | | | |
| Carrying amount at beginning of year | 1,106 | 849 | 78 | 70 |
| • Additions, including acquisitions through acquisition of interest in joint venture | 295 | 484 | 85 | 35 |
| • Transfer from capital works in progress | 341 | 33 | — | — |
| • Disposals | (74) | (48) | — | (6) |
| • Depreciation | (232) | (212) | (25) | (21) |
| Carrying amount at end of year | 1,436 | 1,106 | 138 | 78 |
| • Capital works in progress | | | | |
| Carrying amount at beginning of year | 228 | 16,097 | — | — |
| • Additions, including acquisitions through acquisition of interest in joint venture | 5,077 | 86 | — | — |
| • Disposals | — | (745) | — | — |
| • Transfers to property, plant and equipment | (848) | (15,210) | — | — |
| Carrying amount at end of year | 4,457 | 228 | — | — |

### 14. EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Costs carried forward in respect of areas of interest in: | | | | |
| • Exploration and/or evaluation phase – at cost | 40,555 | 37,126 | — | — |
| | 40,555 | 37,126 | — | — |

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 15. PAYABLES

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Trade creditors | 6,521 | 1,554 | 285 | 240 |
| Other creditors and accruals | 54,825 | 26,855 | 891 | 308 |
| | 61,346 | 28,409 | 1,176 | 548 |
| **Non-current** | | | | |
| Other amounts payable | — | 10,000 | — | — |
| Amounts payable to controlled entities – unsecured | — | — | — | 1,563 |
| | — | 10,000 | — | 1,563 |

### 16. INTEREST BEARING LIABILITIES

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Bank loans – secured | 19,102 | 12,882 | — | — |
| Redeemable convertible notes | 5,627 | — | 5,627 | — |
| Deferred liability for acquisition of mining interest – unsecured | 1,933 | 1,934 | — | — |
| | 26,662 | 14,816 | 5,627 | — |
| **Non-current** | | | | |
| Bank loans – secured | — | 26,866 | — | — |
| Redeemable convertible notes | — | 29,871 | — | 29,871 |
| Deferred liability for acquisition of mining interest – unsecured | 9,790 | 10,633 | — | — |
| | 9,790 | 67,370 | — | 29,871 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**16. INTEREST BEARING LIABILITIES (continued)**

**Redeemable convertible notes**

In December 2002 the Company issued 20,689,660 convertible notes at an issue price of A$1.45 each with interest at 10% per annum payable half-yearly. The notes are convertible, at the option of the holder, on any interest payment date up to 11 December 2005 to ordinary shares on the basis of one share per note. The Company has the option, on receiving the conversion request from the holder, to either issue ordinary shares or to pay the cash equivalent. Any notes not converted by the maturity date must be redeemed by the Company at the issue price on the maturity date. During the year 16,719,850 (2004: 54,000) notes were converted at A$1.45 (refer Note 20).

**Deferred liability for acquisition of mining interest – unsecured**

In December 2003 the consolidated entity purchased an additional 23.3% interest in the Coppabella Project. As part of the acquisition, the consolidated entity entered into an arrangement to progressively purchase the 23.3% interest in the exploration tenements each six months, over a 10 year period. In accordance with applicable Australian Accounting Standards the deferred liability has been reflected at its present value in the financial statements, discounted at 10% based on 6% interest plus risk adjusted margin.

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Financing arrangements** | | | | |
| The consolidated entity has access to the following lines of credit: | | | | |
| Total facilities available: | | | | |
| • Bank loans | | | | |
| • cash advance term loan (US$14,552,000) | 19,102 | 39,748 | — | — |
| • revolving cash advance working capital loan | 17,226 | 17,226 | — | — |
| • revolving amortising cash advance bridge loan | — | 9,600 | — | 9,600 |
| • Bank guarantee | 33,363 | 35,855 | — | — |
| | 69,691 | 102,429 | — | 9,600 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 16. INTEREST BEARING LIABILITIES (continued)

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Total facilities utilised at reporting date: | | | | |
| • Bank loans | | | | |
| • cash advance term loan (US$14,552,000) | 19,102 | 39,748 | — | — |
| • revolving cash advance working capital loan | — | — | — | — |
| • revolving amortising cash advance bridge loan | — | — | — | — |
| • Bank guarantee | 32,324 | 35,281 | — | — |
| | 51,426 | 75,029 | — | — |
| Facilities not utilised at reporting date: | | | | |
| • Bank loans | | | | |
| • cash advance term loan (US$Nil) | — | — | — | — |
| • revolving cash advance working capital loan | 17,226 | 17,226 | — | — |
| • revolving amortising cash advance bridge loan | — | 9,600 | — | 9,600 |
| • Bank guarantee | 1,039 | 574 | — | — |
| | 18,265 | 27,400 | — | 9,600 |

**Bank loans**

***Project Finance Facility***

A non-recourse Project Finance Facility applicable to the Coppabella and Moorvale mines is in place with the debt being held by the controlled entities. Bank loans provided as part of the Project Finance Facility are:

1) Cash advance term loan

The loan is denominated in United States dollars and is to be amortised on a diminishing basis on minimum scheduled repayments to 15 November 2008. An amount of A$19,102,000 (US$14,552,000) (2004: A$12,882,000; US$8,887,000) is included in current liabilities, being the amount payable within one year due to the loan being expected to be fully repaid by November 2005 based on projected cashflows. A$Nil (US$Nil) (2004: A$26,866,000; US$18,535,000) is included in non-current liabilities as the term loan will be repaid.

The interest rate applicable to the cash advance term loan comprises LIBOR plus a margin of 1.55% per annum. The effective interest rate is 5.05% (2004: 3.25%) per annum at 30 June 2005.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**16. INTEREST BEARING LIABILITIES (continued)**

**Bank loans (continued)**

***Project Finance Facility (continued)***

2) Revolving cash advance working capital loan

The revolving cash advance working capital loans are denominated in Australian dollars. The amount drawn at 30 June 2005 is A$Nil (2004: A$Nil). The loan facility is available until 15 November 2008.

The interest rate comprises a base rate based on BBSY plus a margin of 1.55% per annum. The effective interest rate is 7.24% (2004: 7.14%) per annum at 30 June 2005. Additionally, a commitment fee of 0.70% per annum is payable on the unused portion of the revolving cash advance working capital loan facility.

3) Bank guarantee facility

The bank guarantee facility is denominated in Australian and United States dollars and is available until 15 November 2008. Bank guarantee fees are payable at 0.775% per annum and a fee of 0.35% per annum applies to the unused portion of the bank guarantee facility.

*Security*

The Project Finance Facility is secured by charges over the consolidated entity's interest in the Coppabella and Moorvale Joint Venture including all of the assets and undertakings of the controlled entity, Coppabella Coal Pty Ltd, and the Company's shares in Coppabella Coal Pty Ltd and intercompany loans to the controlled entity.

***Corporate facility***

*Revolving amortising cash advance bridge loan*

A revolving amortising bridge loan was in place during the year with the debt being held by the Company. The facility was not drawn down during the year and was cancelled on 28 February 2005.

*Security*

The bridge loan was secured by charges over all of the consolidated entity's assets ranking after those assets secured under the Project Finance Facility. All charges in relation to the bridge loan have been removed.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 16. INTEREST BEARING LIABILITIES (continued)

**Bank loans (continued)**

***Corporate facility (continued)***

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Assets pledged under security arrangements** | | | | |
| The carrying amount of the pledged non-current assets are as follows: | | | | |
| Mining property | 109,592 | 123,260 | — | — |
| Land | 3,730 | 4,923 | — | — |
| Buildings and infrastructure | 51,818 | 56,577 | — | — |
| Plant and equipment | 1,263 | 1,106 | — | 78 |
| Capital works in progress | 4,457 | 228 | — | — |
| Exploration, evaluation and development expenditure | — | 37,126 | — | — |
| Receivables | 7,555 | 2,768 | — | 26 |
| Deferred tax assets | — | 6,601 | — | 6,601 |
| Other financial assets | 2,783 | 8,906 | — | — |
| Other | 12,723 | 2,993 | — | — |
| Shares in controlled entities | — | — | 56,385 | 57,871 |
| Amounts receivable from controlled entities | — | — | 79,201 | 113,486 |
| | 193,921 | 244,488 | 135,586 | 178,062 |

### 17. PROVISIONS

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Employee benefits | 198 | 65 | 198 | 65 |
| Rehabilitation | 1,258 | 1,613 | — | — |
| | 1,456 | 1,678 | 198 | 65 |
| **Non-current** | | | | |
| Employee benefits | 39 | 48 | 39 | 48 |
| Rehabilitation | 10,691 | 8,349 | — | — |
| | 10,730 | 8,397 | 39 | 48 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 18. OTHER FINANCIAL LIABILITIES

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Mining exploration and evaluation costs (refer Note 26(d)) | 1,471 | 1,360 | — | — |
| Amounts payable for future user charges (refer Note 26(e)) | 1,599 | 1,570 | — | — |
| Foreign currency contracts | 1,737 | 6,474 | — | — |
| | 4,807 | 9,404 | — | — |
| **Non-current** | | | | |
| Mining exploration and evaluation costs (refer Note 26(d)) | 131 | 1,545 | — | — |
| Amounts payable for future user charges (refer Note 26(e)) | 12,398 | 14,346 | — | — |
| Foreign currency contracts | 169 | 2,610 | — | — |
| | 12,698 | 18,501 | — | — |

### 19. OTHER LIABILITIES

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Deferred unrealised gains on foreign currency contracts | 17,907 | 8,972 | — | — |
| Deferred unrealised gains on US dollar bank loans | 2,314 | 1,480 | — | — |
| | 20,221 | 10,452 | — | — |
| **Non-current** | | | | |
| Deferred unrealised gains on foreign currency contracts | 2,614 | 6,296 | — | — |
| Deferred unrealised gains on US dollar bank loans | 2,109 | 3,099 | — | — |
| | 4,723 | 9,395 | — | — |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 20. CONTRIBUTED EQUITY

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Share capital** | | | | |
| 172,824,327 (2004: 154,724,477) ordinary shares, fully paid | 181,086 | 155,053 | 181,086 | 155,053 |
| **Movements during the year** | | | | |
| Balance at beginning of year | 155,053 | 124,982 | 155,053 | 124,982 |
| Shares issued: | | | | |
| • Nil (2004: 25,781,413) pursuant to a rights issue prospectus | — | 30,938 | — | 30,938 |
| • Transaction costs arising from issue pursuant to a rights issue prospectus | — | (1,301) | — | (1,301) |
| • Adjustment to prior period transaction costs | (43) | — | (43) | — |
| • 290,000 (2004: 310,000) from the exercise of options at A$1.15 per share under the Directors' and Executives' option plans | 334 | 356 | 334 | 356 |
| • 550,000 (2004: Nil) from the exercise of options at A$1.30 per share under the Directors' and Executives' option plans | 715 | — | 715 | — |
| • 540,000 (2004: Nil) from the exercise of options at A$1.45 per share under the Directors' and Executives' option plans | 783 | — | 783 | — |
| • 16,719,850 (2004: 54,000) convertible notes at A$1.45 per share converted to ordinary shares | 24,244 | 78 | 24,244 | 78 |
| Balance at end of year | 181,086 | 155,053 | 181,086 | 155,053 |

**Terms and conditions**

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 21. RETAINED PROFITS

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | **2005** | **2004** | **2005** | **2004** |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| Retained profits at beginning of year | | 24,398 | 13,941 | 1,201 | 1,505 |
| Net profit | | 61,420 | 11,743 | 21,594 | 982 |
| Dividends recognised during the year | 22 | (17,751) | (1,286) | (17,751) | (1,286) |
| Retained profits at end of year | | 68,067 | 24,398 | 5,044 | 1,201 |

### 22. DIVIDENDS

| | Cents per share | Total amount A$ | Franked/ unfranked | Date of payment |
|---|---|---|---|---|
| **2005** | | | | |
| 2004 final – ordinary | 3.78 | 5,873,533 | Franked | 30 September 2004 |
| Interim – ordinary | 7.00 | 11,877,073 | Franked | 31 March 2005 |
| | 10.78 | 17,750,606 | | |
| **2004** | | | | |
| 2003 final – ordinary | 1.0 | 1,285,791 | Franked | 20 October 2003 |
| **Subsequent events** | | | | |
| Since the end of the financial year, the directors declared the following dividend: | 11.0 | 19,010,676 | Franked | 30 September 2005 |

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2005 and will be recognised in subsequent financial reports.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 22. DIVIDENDS (continued)

| | The Company | |
|---|---|---|
| | **2005** | **2004** |
| | A$'000 | A$'000 |
| **Dividend franking account** | | |
| 30% franking credits available to shareholders of the Company for subsequent financial years | 16,628 | 3,714 |

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(a) franking credits that will arise from the payment of the current tax liability/receivable

(b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the year-end

(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

### 23. SEGMENT REPORTING

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The "other" segment consists of corporate and other business development activities. Unallocated items mainly comprise income earning assets and revenue, interest bearing loans, borrowings and expenses, and corporate assets and expenses. Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period. Inter-segment pricing is determined on an arm's length basis.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**23. SEGMENT REPORTING (continued)**

| | Operating coal mines A$'000 | Exploration and evaluation A$'000 | Other A$'000 | Eliminations A$'000 | Consolidated A$'000 |
|---|---|---|---|---|---|
| **Primary Reporting – Business segments 2005** | | | | | |
| External revenue | 371,549 | — | 1,154 | — | 372,703 |
| Inter-segment revenue | — | — | 11,362 | (11,362) | — |
| **Total segment revenue** | **371,549** | **—** | **12,516** | **(11,362)** | **372,703** |
| **Result** | | | | | |
| Segment result | 90,930 | (2,859) | 2,102 | — | 90,173 |
| Profit from ordinary activities before tax | | | | | 90,173 |
| Income tax expense | | | | | (28,753) |
| Profit from ordinary activities after tax | | | | | 61,420 |
| Depreciation and amortisation | 15,730 | 3 | 419 | — | 16,152 |
| Non-cash expenses other than depreciation and amortisation | 1,177 | — | 124 | — | 1,301 |
| Individually significant items | 3,120 | — | — | — | 3,120 |
| **Assets** | | | | | |
| Segment assets | 373,513 | 46,818 | 178,975 | (156,204) | 443,102 |
| **Consolidated total assets** | | | | | **443,102** |
| **Liabilities** | | | | | |
| Segment liabilities | 252,180 | 49,796 | 48,960 | (156,987) | 193,949 |
| **Consolidated total liabilities** | | | | | **193,949** |
| Acquisitions of non-current assets | 5,433 | 3,459 | 85 | — | 8,977 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**23. SEGMENT REPORTING (continued)**

| | **Asia** | **Europe** | **Americas** | **Other** | **Eliminations** | **Consolidated** |
|---|---|---|---|---|---|---|
| | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| **Secondary Reporting - Geographical segments 2005** | | | | | | |
| External segment revenue by location of customers | 159,324 | 152,490 | 40,912 | 19,977 | — | 372,703 |

The consolidated entity operates predominately in Australia. All segment assets from ordinary activities relate to operations in Australia.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 23. SEGMENT REPORTING (continued)

| | Operating coal mines A$'000 | Exploration and evaluation A$'000 | Other A$'000 | Eliminations A$'000 | Consolidated A$'000 |
|---|---|---|---|---|---|
| **Primary Reporting – Business segments** | | | | | |
| **2004** | | | | | |
| External revenue | 224,887 | — | 460 | — | 225,347 |
| Inter-segment revenue | — | — | 8,071 | (8,071) | — |
| **Total segment revenue** | **224,887** | **—** | **8,531** | **(8,071)** | **225,347** |
| **Result** | | | | | |
| Segment result | 17,092 | (2,215) | 993 | — | 15,870 |
| Profit from ordinary activities before tax | | | | | 15,870 |
| Income tax expense | | | | | (4,127) |
| Profit from ordinary activities after tax | | | | | 11,743 |
| Depreciation and amortisation | 12,306 | 3 | 619 | — | 12,928 |
| Non-cash expenses other than depreciation and amortisation | 1,709 | — | 21 | — | 1,730 |
| Individually significant items | 4,757 | — | — | — | 4,757 |
| **Assets** | | | | | |
| Segment assets | 307,631 | 41,523 | 113,106 | (86,502) | 375,758 |
| **Consolidated total assets** | | | | | **375,758** |
| **Liabilities** | | | | | |
| Segment liabilities | 227,150 | 42,500 | 48,416 | (121,759) | 196,307 |
| **Consolidated total liabilities** | | | | | **196,307** |
| Acquisitions of non-current assets | 36,469 | 4,176 | — | — | 40,645 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 23. SEGMENT REPORTING (continued)

| | Asia | Europe | Americas | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| **Secondary Reporting – Geographical segments 2004** | | | | | | |
| External segment revenue by location of customers | 110,357 | 83,183 | 28,240 | 3,567 | — | 225,347 |

The consolidated entity operates predominately in Australia. All segment assets from ordinary activities relate to operations in Australia.

### 24. INTERESTS IN JOINT VENTURES

The consolidated entity holds the following interests in various joint ventures whose principal activities are coal production, exploration and evaluation, and development.

| | Coppabella and Moorvale Joint Venture | | Bowen Basin Coal Exploration Joint Venture | | Monto Coal Joint Venture | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Joint Venture % Interest held | 73.3% | 73.3% | 58% (1) | 57% | 51% | 51% |
| Principal activity | Coal production | | Exploration | | Exploration and evaluation | |

(1) Per the farm-in agreement (refer Note 26(g) (v)) Macarthur Exploration Pty Ltd holds a 50% interest in the tenements held in the Bowen Basin Coal Exploration Joint Venture, except for West Rolleston and Capricorn in which it holds a 75% interest. The 58% (2004: 57%) interest has been applied based upon weighted contributions of existing (prior to farm-in arrangements) and new mining exploration permits.

For the year ended 30 June 2005, the contribution of the Coppabella and Moorvale Joint Venture to the operating profit before tax of the consolidated entity was A$100,412,000 (2004: A$25,668,000). The value of the consolidated entity's 73.3% share of coal mined during the year by Coppabella and Moorvale Joint Venture was A$345,240,000 (2004: A$188,487,000).

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 24. INTERESTS IN JOINT VENTURES (continued)

There was no coal mined by the other joint ventures during the year.

Included in the assets and liabilities of the consolidated entity are the following items which represent the consolidated entity's interest in the assets and liabilities employed in the joint ventures, recorded in accordance with the accounting policies described in Note 1(b).

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| *Current assets* | | | | |
| Cash assets | 15 | 4 | — | — |
| Receivables | 6,216 | 12,681 | — | — |
| Inventories | 24,075 | 11,312 | — | — |
| Other financial assets | 319 | 56 | — | — |
| Other | 47,682 | 36,228 | — | — |
| **Total current assets** | 78,307 | 60,281 | — | — |
| *Non-current assets* | | | | |
| Receivables | 44 | 105 | — | — |
| Property, plant and equipment | 174,371 | 186,017 | — | — |
| Exploration, evaluation and development | 40,555 | 37,126 | — | — |
| Other | 12,723 | 2,993 | — | — |
| **Total non-current assets** | 227,693 | 226,241 | — | — |
| **Total assets** | 306,000 | 286,522 | — | — |
| *Current liabilities* | | | | |
| Payables | 48,614 | 26,704 | — | — |
| Provisions | 1,258 | 1,612 | — | — |
| Other financial liabilities | 1,599 | 1,570 | — | — |
| **Total current liabilities** | 51,471 | 29,886 | — | — |
| *Non-current liabilities* | | | | |
| Provisions | 10,691 | 8,349 | — | — |
| Other financial liabilities | 12,398 | 14,346 | — | — |
| **Total non-current liabilities** | 23,089 | 22,695 | — | — |
| **Total liabilities** | 74,560 | 52,581 | — | — |

Refer to Notes 26 and 27 for details of commitments and contingent liabilities.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 25. NOTES TO THE STATEMENTS OF CASH FLOWS

#### a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | **2005** | **2004** | **2005** | **2004** |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| Cash assets | 8 | 18,138 | 11,775 | 17,685 | 11,686 |

#### b) Reconciliation of operating profit after income tax to net cash provided by/(used in) operating activities

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Profit from ordinary activities after income tax | 61,420 | 11,743 | 21,594 | 982 |
| Add/(less) items classified as investing/financing activities: | | | | |
| • (Profit)/loss on sale of non-current assets | 23 | 2,002 | — | (5) |
| • Interest on convertible notes | 2,012 | 3,002 | 2,012 | 3,002 |
| • Interest on interest bearing liabilities | 2,602 | 3,408 | — | 145 |
| • Exploration costs expensed | 152 | 258 | — | — |
| Add/(less) non-cash items: | | | | |
| • Amortisation of borrowing costs | 973 | 1,316 | 569 | 598 |
| • Net bad and doubtful debts expense | 1,471 | — | — | — |
| • Amounts set aside to provisions | 2,111 | 2,402 | 124 | 28 |
| • Unrealised foreign exchange losses | 185 | 38 | — | — |
| • Depreciation | 15,354 | 11,612 | 25 | 21 |
| • Borrowing costs written off | — | 1,912 | — | — |
| • Overburden in advance written off | 3,120 | 2,845 | — | — |
| • Write down in value of investments in controlled entities to recoverable amount | — | — | — | 17,521 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**25. NOTES TO THE STATEMENTS OF CASH FLOWS (continued)**

**b) Reconciliation of operating profit after income tax to net cash provided by/(used in) operating activities (continued)**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Net cash provided by/(used in) operating activities before change in assets and liabilities: | 89,423 | 40,538 | 24,324 | 22,292 |
| Change in assets and liabilities adjusted for effects of purchase and disposal of joint venture interests during the financial year: | | | | |
| • Increase/(decrease) in income tax payable | 16,505 | (1,244) | 16,505 | (1,384) |
| • Increase/(decrease) in net deferred tax payable | 8,162 | 1,872 | 8,162 | 1,872 |
| • (Increase)/decrease in tax related receivable | — | — | (27,896) | 6,524 |
| • (Increase)/decrease in tax receivable | 7,000 | (7,000) | 7,000 | (7,000) |
| • (Increase)/decrease in receivables | (937) | (7,593) | (170) | (233) |
| • (Increase)/decrease in inventories | (12,763) | (5,904) | — | — |
| • (Increase)/decrease in overburden in advance | (17,598) | (1,752) | — | — |
| • (Increase)/decrease in prepayments | (6,712) | 434 | (2) | 170 |
| • (Increase)/decrease in deferred expenditure | 1,946 | 1,397 | 31 | (31) |
| • Increase/(decrease) in creditors and accruals | 22,958 | (1,801) | 598 | (179) |
| • Net cash provided by/(used in) operating activities | 107,984 | 18,947 | 28,552 | 22,031 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**26. COMMITMENTS**

**a) Capital expenditure commitments**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Joint ventures** | | | | |
| Buildings and infrastructure contracted for but not provided for in the financial statements and payable: | | | | |
| • Not later than one year | 369 | 20 | — | — |

**b) Operating lease commitments**

Future operating lease rentals not provided for in the financial statements and payable:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| • Not later than one year | 416 | 133 | 416 | 133 |
| • Later than one year but not later than five years | 1,452 | 71 | 1,452 | 71 |
| • Later than five years | 703 | — | 703 | — |
| | 2,571 | 204 | 2,571 | 204 |

The Company leases property under non-cancellable operating leases expiring from one to seven years. Leases generally provide the Company with a right of renewal at which time all terms are negotiated.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**26. COMMITMENTS (continued)**

**c) Mining leases - Joint ventures**

Future mining lease rentals not provided for in the financial statements and payable:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| • Not later than one year | 298 | 281 | — | — |
| • Later than one year but not later than five years | 1,056 | 867 | — | — |
| • Later than five years | 3,277 | 2,805 | — | — |
| | 4,631 | 3,953 | — | — |

**d) Exploration and evaluation expenditure commitments**

***Exploration obligations***

In order to maintain current rights of tenure to exploration tenements, the consolidated entity is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. The expenditure obligations are subject to renegotiation when application for a mining lease is made and at other times.

These obligations are not provided for in the financial statements and are payable:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| • Not later than one year | 477 | 1,096 | — | — |
| • Later than one year but not later than five years | 125 | 202 | — | — |
| | 602 | 1,298 | — | — |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**26. COMMITMENTS (continued)**

**d) Exploration and evaluation expenditure commitments (continued)**

***Exploration costs***

Committed costs for exploration and evaluation areas not provided for in the financial statements and payable:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| • Not later than one year | 113 | 223 | — | — |
| • Later than one year but not later than five years | 1 | 40 | — | — |
| | 114 | 263 | — | — |

**e) Operating commitments - Joint ventures**

Commitments under the electricity, water, rail, port, coal washing plant and train loading facility agreements for joint ventures not provided for in the financial statements and payable:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| • Not later than one year | 28,260 | 20,219 | — | — |
| • Later than one year but not later than five years | 82,576 | 75,550 | — | — |
| • Later than five years | 20,260 | 26,300 | — | — |
| | 131,096 | 122,069 | — | — |

In addition to the operating commitments in (e) above, other contracts on commercial terms and conditions have been entered into with contractors for overburden and mining operations at Coppabella and Moorvale mines and with original landowners regarding royalty arrangements. As the amounts payable under the contracts vary with the quantities mined and sold, future commitments are not able to be reliably assessed and quantified.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**26. COMMITMENTS (continued)**

**e) Operating commitments - Joint ventures (continued)**

On 23 October 2002, the Coppabella and Moorvale Joint Venture participants agreed to pay a user charge to the Queensland Government for the facilitation of the transport infrastructure corridor (TIC) relocation. The user charge comprises 40 quarterly payments (consolidated entity share of A$596,000 per quarter; 2004: A$661,000 per quarter), commencing 1 October 2002, which have been included in the above operating commitments less the amounts payable for future user charges brought to account at 30 June 2005 (refer Note 18).

**f) Employee remuneration commitments**

Commitments under non-cancellable employment contracts not provided for in the financial statements and payable:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| • Not later than one year | 265 | 265 | 265 | 265 |

Denis Wood is a director of Queensland Coke & Energy Pty Ltd (QCE), a wholly controlled entity of the Company. By a Services Agreement dated 1 August 2005, Coal Industry Services Pty Ltd, a director related entity, has agreed to provide the services of Denis Wood to QCE at A$392,400 per annum. The contract relates to the development of a coke project and is for a initial period of 3 years but is able to be extended. If the project is successfully developed, a royalty is payable for 15 years at A$0.50 per tonne up to 1.6 million tonnes per annum and A$0.25 per tonne for each tonne over 1.6 million tonnes per annum. The contract may be terminated for particular stated events, in which case no termination payments are payable. If terminated for other stated events, the royalty remains payable.

The above amounts represent minimum commitments under these arrangements offset by any amounts brought to account as liabilities at 30 June 2005.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**26. COMMITMENTS (continued)**

**g) Other commitments**

(i) The Company has guaranteed the obligations of Monto Coal 2 Pty Ltd, a controlled entity, in relation to outstanding payments in connection with acquisition of Monto Coal 2 Pty Ltd's 51% interest in the Monto Coal Joint Venture.

***Joint Ventures***

*Deeds of cross charge*

(ii) The payment of future cash calls by Coppabella Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the Coppabella and Moorvale Joint Venture is secured by a guarantee from the Company and a charge over Coppabella Coal Pty Ltd's interest in the Coppabella and Moorvale Joint Venture in favour of the other joint venturers and Macarthur Coal (C&M Management) Pty Ltd (formerly Australian Premium Coals Pty Ltd) as the manager of the Coppabella and Moorvale Joint Venture.

(iii) The payment of future cash calls by Monto Coal 2 Pty Ltd, a controlled entity, for its share of operating and capital costs in the Monto Coal Joint Venture is secured by a charge over Monto Coal 2 Pty Ltd's interest in the Monto Coal Joint Venture in favour of the other joint venturers.

(iv) Farm-in obligations (refer (v) below) and payment of future cash calls by Macarthur Exploration Pty Ltd, a controlled entity, for its share of operating and capital costs in the Bowen Basin Coal Exploration Joint Venture is secured by a charge over Macarthur Exploration Pty Ltd's interest in the Bowen Basin Coal Exploration Joint Venture in favour of the other joint venturers.

*Other*

(v) A farm-in arrangement has been entered into between Macarthur Exploration Pty Ltd, a controlled entity, and the participants of the Bowen Basin Coal Exploration Joint Venture which entitles Macarthur Exploration Pty Ltd to earn an interest in various exploration tenements including the Olive Downs Project progressively as it fulfils its exploration expenditure commitments totalling A$7,500,000 over a 4 year period from 1 July 2001. Macarthur Exploration Pty Ltd fulfilled its exploration expenditure commitment of A$7,500,000 on 20 October 2004.

(vi) The Company has guaranteed the commitments of Coppabella Coal Pty Ltd, Macarthur Exploration Pty Ltd and Monto Coal 2 Pty Ltd, controlled entities, in relation to royalty arrangements.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**26. COMMITMENTS (continued)**

**g) Other commitments (continued)**

***Associates***

Refer Note 29(b).

**27. CONTINGENT LIABILITIES AND ASSETS**

The details and estimated maximum amounts of contingent liabilities where the probability of future payments is not considered remote are set out below, as well as details of contingent liabilities, which although considered remote, the directors consider should be disclosed.

The directors are of the opinion that provisions are not required in respect of the contingent liabilities, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

**Indemnities**

Indemnities have been provided to directors and certain executive officers of the Company in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations outstanding at 30 June 2005. [1]

[1] These contingent liabilities are considered remote.

**Guarantees**

Coppabella Coal Pty Ltd, a controlled entity, as a participant of the Coppabella and Moorvale Joint Venture, has provided bank guarantees totalling A$32,324,000 (2004: A$35,281,000) in respect of rehabilitation works, electricity, transport infrastructure corridor facilities and customers. [1]

The consolidated entity, as a participant of the Coppabella and Moorvale Joint Venture, has entered into a Residual Value Guarantee (RVG) with a bank regarding the lease residual value of the dragline used by a contractor at the Coppabella Mine for A$10,775,000 (2004: A$10,775,000). The lease term expires on 30 June 2008. Management of Macarthur Coal (C&M Management) Pty Ltd (formerly Australian Premium Coals Pty Ltd), the manager of the Coppabella and Moorvale Joint Venture, expect the future value of the dragline to be in excess of the residual value at 30 June 2008 provided the contractor performs to the Asset Management Plan. The financier of the dragline also holds a fixed and floating charge over Coppabella Coal Pty Ltd's interests up to the agreed share of the residual value being A$10,775,000 (2004: A$10,775,000).[1]

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**27. CONTINGENT LIABILITIES AND ASSETS (continued)**

Coppabella Coal Pty Ltd, a controlled entity, as a participant of the Coppabella and Moorvale Joint Venture, has entered into the Coppabella Dragline Agreement dated 19 April 2002 requiring purchase guarantees to be provided in relation to the Marion 8200 dragline erected by Roche Mining Pty Ltd (Roche) and that will be used by Roche in undertaking a contract, being for the removal of overburden and mining of coal. In the event of a termination of the contract, the guarantees in place require Macarthur Coal (C&M Management) Pty Ltd (formerly Australian Premium Coals Pty Ltd), as agent for the Coppabella and Moorvale Joint Venture, to assume all the reasonable continuing liabilities of the dragline, any items that relate to the construction or operation of the dragline (including spare parts) and any financing responsibilities in relation to the operating lease between Roche and the Lease Financiers including Investec Bank (Australia) Limited. (1)

(1) These contingent liabilities are considered remote.

**Environmental**

Current Queensland Government environment policy requires the preparation of an Environmental Management Overview Strategy (EMOS) and a Plan of Operations detailing the quality, timing and standards of planned mine rehabilitation work. The Coppabella and Moorvale Joint Venture has prepared its EMOS and its Plans of Operations has been accepted by the Environmental Protection Agency. In addition to the EMOS and the Plans of Operations, the consolidated entity is required to lodge securities with the Department of Natural Resources and Mines to ensure compliance with relevant legislation. The total amount of the guarantees lodged with the Department of Natural Resources and Mines as at 30 June 2005 is A$11,074,000 (2004: A$8,689,000) (included in the amount of guarantees referred to above). (1)

(1) These contingent liabilities are considered remote.

**Memorandum of Understanding**

During the year, Queensland Coke & Energy Pty Ltd (QCE), a wholly owned controlled entity of the Company entered into a memorandum of understanding with a contractor to develop an estimated cost and execution plan for the design and construction of the coke plant as part of the feasibility study. If the memorandum of understanding is terminated by QCE or an alternative contractor is ultimately appointed to construct the plant, a fee of A$1,500,000 will be payable.

**Litigation**

On 19 December 2003, Macarthur Coal (C&M Management) Pty Ltd (the Manager) (formerly Australian Premium Coals Pty Ltd), as manager and agent for the Coppabella and Moorvale Joint Venture participants, lodged a Notice of Dispute with its mining contractor Roche Mining Pty Ltd in relation to a mining contract at the Coppabella Mine. The claim included recovery of loss and damages for higher production costs and demurrage resulting from a failure of the contractor to deliver coal in accordance with the contract provisions.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 27. CONTINGENT LIABILITIES AND ASSETS (continued)

**Litigation (continued)**

On 9 June 2004, the contractor lodged a Notice of Dispute on the Manager under the mining contract. The claim included higher costs of mining in the 2004 financial year due to alleged delay in access to particular mining areas and alleged adverse mining conditions. By letter dated 28 June 2004, the contractor referred the Dispute to arbitration.

On 9-10 December 2004, the Arbitrator heard submissions on a preliminary point as to whether the items listed in the Notice of Dispute were disputes as defined within the meaning of the mining contract and were correctly submitted in accordance with the contract. On 28 February 2005, the arbitrator determined that 7 of the 9 items could proceed to arbitration. The Manager received the Points of Claim from Roche on 21 March 2005 and detailed requests for particulars were issued on 29 April 2005 and 10 June 2005. The defence and counter claim is being prepared, however the timing for their completion is dependent on receipt of the requested particulars.

On 5 July 2005, the contractor lodged another Notice of Dispute in relation to alleged additional costs resulting from approval of the 2005 financial year Mine Plan. The contractor has sought to refer this dispute to arbitration.

The total value of the claims noted above is in the order of A$107 million for the Coppabella and Moorvale Joint Venture, of which the consolidated entity holds a 73.3% interest. Areas of duplication have been identified across these two claims and Roche is yet to provide particulars regarding basis and quantum.

The Directors of the consolidated entity (and the Manager) dispute the above claims and will vigorously defend its position in arbitration.

In the Director's opinion, disclosure of any further information about the above matter would be prejudicial to the interests of the consolidated entity.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 28. CONTROLLED ENTITIES

**a) Particulars in relation to controlled entities**

| | | Interest Held | |
|---|---|---|---|
| | | **2005** | **2004** |
| | Note | % | % |
| **Name** | | | |
| *Parent entity* | | | |
| Macarthur Coal Limited | | | |
| *Controlled entities* | | | |
| Coppabella Coal Pty Ltd | | 100 | 100 |
| Olive Downs Coal Pty Ltd | (A) | 100 | 100 |
| Moorvale Coal Pty Ltd | (A) | 100 | 100 |
| Moorvale Interest Pty Ltd | (A) | 100 | 100 |
| Macarthur Exploration Pty Ltd | (A) | 100 | 100 |
| Macarthur Coal Management Pty Ltd | (A) | 100 | 100 |
| Monto Coal Pty Ltd | (A) | 100 | 100 |
| Monto Coal 2 Pty Ltd | (A) | 100 | 100 |
| Queensland Coke & Energy Pty Ltd | (A) | 100 | — |
| Macarthur Coal Mine Management Pty Ltd | (A) | 100 | — |

All controlled entities were incorporated and carry on business in Australia.

(A) No separate audit opinion is issued as it is not required in the place of incorporation. The results and the state of affairs of the entity have been reviewed in forming the audit opinion on the financial report of the consolidated entity.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**28. CONTROLLED ENTITIES (continued)**

**b) Acquisition of controlled entities**

The following controlled entities were acquired during the financial year:

| | Date aquired | Consolidated entity's interest | Consideration | Contribution to consolidated net profit |
|---|---|---|---|---|
| | | % | A$'000 | A$'000 |
| **2005** | | | | |
| Queensland Coke & Energy Pty Ltd | 14 December 2004 | 100 | — | — |
| Macarthur Coal Mine Management Pty Ltd | 15 June 2005 | 100 | — | — |

The companies were acquired as shelf companies for nominal cost. The shelf companies had no assets nor had operated at the date of acquisition.

**2004**

The consolidated entity did not gain control over any entities during the prior financial year.

**29. INVESTMENTS IN ASSOCIATED ENTITIES**

**a) Name**

| | Principal activities | Reporting date | Interest held 2005 | Interest held 2004 |
|---|---|---|---|---|
| | | | % | % |
| Macarthur Coal (C&M Management) Pty Ltd [1] | Manager of the Coppabella and Moorvale Joint Venture | 30 June | 73.3 | 73.3 |
| Bistrotel Pty Ltd | Property Owner | 30 June | 73.3 | 73.3 |

(1) Name changed from Australian Premium Coals Pty Ltd on 29 June 2005.

Investments in these entities are held in connection with joint venture arrangements. Under these arrangements, the consolidated entity does not have control over these associated entities, and accordingly have not been consolidated. The impact of the results and operations of the associated entities are not material to the consolidated entity and accordingly have not been equity accounted.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 29. INVESTMENTS IN ASSOCIATED ENTITIES (continued)

#### b) Commitments

| | Consolidated | |
|---|---|---|
| | **2005** | **2004** |
| | A$'000 | A$'000 |
| Share of associates' operating lease commitments payable: | | |
| • Not later than one year | 28 | 20 |
| • Later than one year but not later than five years | 85 | 12 |
| | 113 | 32 |

### 30. DIRECTORS AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES

**Remuneration of specified directors and specified executives by the consolidated entity**

Disclosures of remuneration policies, service contracts and details of remuneration are included in the Remuneration Report on page 57 to 60.

**Equity instruments**

***Option holdings***

All options refer to options over ordinary shares of the Company, which are exercisable on a one for one basis under the Directors' Option Plan and Executive Option Plan (refer Note 33).

Options granted to directors are on the same terms and conditions as those granted to other employees. There were no options granted during the year.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**30. DIRECTORS AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES (continued)**

**Equity instruments (continued)**

***Option holdings (continued)***

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

| | Held at 1 July 2004 | Exercised | Held and exercisable at 30 June 2005 |
|---|---|---|---|
| **Specified Directors** | | | |
| Hon. Keith De Lacy | 300,000 | 300,000 | — |
| Roger Marshall | 300,000 | 300,000 | — |
| Don Nissen | 200,000 | 200,000 | — |
| Peter Forbes | — | — | — |
| Ken Talbot | — | — | — |
| **Specified Executives** | | | |
| Robert Adams | 200,000 | 200,000 | — |
| Shane Stephan | 130,000 | 20,000 | 110,000 |
| Nicole Hollows | 120,000 | 120,000 | — |
| Denis Wood | — | — | — |
| Brett Garland | — | — | — |
| Bruce Denney | — | — | — |
| Gary Lee | — | — | — |
| Ken Carnes | — | — | — |
| Ian Neill | — | — | — |

No options held by specified directors or specified executives are vested but not exercisable.

All shares issued on exercise of options are set out below. The amount paid per share on exercise of the options was A$1.15 per share for 290,000 options, A$1.30 per share for 550,000 options and A$1.45 per share for 540,000 options. There are no amounts unpaid on shares issued as a result of the exercise of the options.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 30. DIRECTORS AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES (continued)

**Equity instruments (continued)**

***Equity holdings and transactions***

The movement during the reporting period in the number of ordinary shares of the Company held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities are as follows:

| | Held at 1 July 2004 | Purchases | Received on exercise of options | Sales | Held at 30 June 2005 |
|---|---|---|---|---|---|
| **Specified Directors** | | | | | |
| Hon. Keith De Lacy | 118,600 | 2,380 | 300,000 | 112,100 | 308,880 |
| Roger Marshall | 120,000 | 2,380 | 300,000 | 280,000 | 142,380 |
| Don Nissen | 124,200 | 2,380 | 200,000 | 20,000 | 306,580 |
| Peter Forbes | 18,000 | 2,380 | — | — | 20,380 |
| Ken Talbot | 67,453,748 | — | — | — | 67,453,748 |
| **Specified Executives** | | | | | |
| Robert Adams | 25,699 | — | 200,000 | 55,699 | 170,000 |
| Shane Stephan | 72,000 | — | 43,707 | — | 115,707 |
| Nicole Hollows | 74,600 | — | 120,000 | 179,600 | 15,000 |
| Denis Wood | — | — | — | — | — |
| Bruce Denney | — | — | — | — | — |
| Gary Lee | — | — | — | — | — |
| Ken Carnes | — | — | — | — | — |
| Ian Neill | — | 4,000 | — | 4,000 | — |

**Loans and other transactions with specified directors and specified executives**

The Company has entered into standard deeds of indemnity and access with the Directors.

The Chief Executive Officer, Ken Talbot, has a 3 year contract which only provides for a fixed salary. Refer to other transactions with the consolidated entity for details on exploration tenement selldown.

Denis Wood, a director of Queensland Coke & Energy Pty Ltd (QCE) a controlled entity of the Company has a services agreement with the consolidated entity. Refer Note 26 for particulars.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**30. DIRECTORS AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES (continued)**

**Equity instruments (continued)**

***Loans***

There were no loans outstanding at the reporting date to specified directors and specified executives, where the individual's aggregate loan balance exceeded A$100,000 at any time in the reporting period.

***Other transactions with the Company or its controlled entities***

A number of specified directors, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The terms and conditions of the transactions with directors and personally related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

Amounts payable to specified directors and their personally-related entities at reporting date arising from related party transactions were as follows:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | A$ | A$ | A$ | A$ |
| **Current payables** | | | | |
| Trade creditors | 10 | — | — | — |

In accordance with the Bowen Basin Coal Exploration Joint Venture Agreement, Bowen Basin Exploration Pty Ltd (a personally-related entity of Mr Ken Talbot) reduced its interest by 3.1% interest in exploration tenements in the year. The cumulative reduction is 25.0% from the commencement of the joint venture. This resulted in a reduction of the free carried interest in the joint venture. The consolidated entity via Macarthur Exploration Pty Ltd, a controlled entity, is funding the exploration program.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 31. NON-DIRECTOR RELATED PARTIES

The classes of non-director related parties are:

- associated companies
- wholly-owned controlled entities
- joint venture entities

All transactions with non-director related parties are on normal terms and conditions.

**Wholly-owned controlled entities transactions**

a) The Company charges interest at normal commercial rates on loans to its wholly-owned controlled entities. The loans to the wholly-owned controlled entities are unsecured and have no fixed repayment terms. Interest is charged quarterly at 8.405% (2004: 8.405%) per annum on the outstanding balance. Interest totalling A$9,368,000 (2004: A$6,400,000) was charged to the wholly-owned controlled entities during the year.

b) The Company also charges management fees to its wholly-owned controlled entities based on the total corporate office expenses. Management fees totalling A$1,994,000 (2004: A$1,672,000) were charged to the wholly-owned controlled entities during the year.

c) A wholly-owned controlled entity, Coppabella Coal Pty Ltd, paid a dividend of A$19,034,000 (2004: A$17,586,000) to the Company.

The aggregate amounts receivable and payable by the consolidated entity and the Company from non-director related parties are shown in Notes 9 and 15. Included in these amounts is the aggregate tax related receivable from wholly-owned controlled entities under the Tax Consolidation legislation.

Macarthur Coal Management Pty Ltd, a controlled entity, charges management fees to Macarthur Coal (C&M Management) Pty Ltd (formerly Australian Premium Coals Pty Ltd), an associated entity, pursuant to the Management Fee Deed dated 31 August 1998. The management fee paid is equal to 0.5% of the aggregate FOB revenue paid to the Coppabella and Moorvale Joint Venture participants from the sale in aggregate of the first 2 million tonnes of coal from the Coppabella Mine in each financial year for the life of the Deed.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 32. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

#### a) Interest rate risk

The consolidated entity enters into interest rate swaps, forward rate agreements and interest rate options to manage cash flow risks associated with the interest rates on long term borrowings that are floating.

***Interest rate swaps and forward rate agreements***

Interest rate swaps allow the consolidated entity to swap floating rate borrowings into fixed rates. Maturities of swap contracts are principally between one and two years. Each contract involves six monthly payment or receipt of the net amount of interest.

The consolidated entity, from time to time, may enter into forward rate agreements to offset changes in the rates paid on the USD term loan floating rate debt. No forward rate agreements were outstanding at year end (2004: Nil).

***Interest rate options***

The consolidated entity has entered into interest rate options to reduce the impact of changes in interest rates on the USD term loan floating rate debt. Interest rate options maturing between one and three years were outstanding at year end and at 30 June 2004.

***Interest rate risk exposures***

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities are set out below:

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 32. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)

#### a) Interest rate risk (continued)

***Interest rate risk exposures (continued)***

| | Note | Weighted average interest rate | Floating interest rate A$'000 | Fixed Interest Maturing In: 1 year or less A$'000 | 1 to 5 years A$'000 | More than 5 years A$'000 | Non-interest bearing A$'000 | Total A$'000 |
|---|---|---|---|---|---|---|---|---|
| **2005** | | | | | | | | |
| Financial assets | | | | | | | | |
| Cash assets | 8 | 5.5% | 18,138 | — | — | — | — | 18,138 |
| Receivables | 9 | — | — | — | — | — | 38,368 | 38,368 |
| Other financial assets | 11 | 3.4% | 58,630 | — | — | — | 22,426 | 81,056 |
| | | | 76,768 | — | — | — | 60,794 | 137,562 |
| Financial liabilities | | | | | | | | |
| Payables | 15 | — | — | — | — | — | 61,346 | 61,346 |
| Interest bearing liabilities [1] | 16 | 7.2% | 19,102 | 7,560 | 6,096 | 3,694 | — | 36,452 |
| Other financial liabilities | 18 | — | — | — | — | — | 17,505 | 17,505 |
| Employee entitlements | 33 | 5.1% | 39 | — | — | — | 198 | 237 |
| | | | 19,141 | 7,560 | 6,096 | 3,694 | 79,049 | 115,540 |
| Interest rate swaps and options [1] | | | (29,572) | 19,485 | 10,087 | — | — | — |
| **2004** | | | | | | | | |
| Financial assets | | | | | | | | |
| Cash assets | 8 | 5.4% | 11,590 | — | — | — | 185 | 11,775 |
| Receivables | 9 | — | — | — | — | — | 32,556 | 32,556 |
| Other financial assets | 11 | 2.2% | 18,417 | — | — | — | 24,352 | 42,769 |
| | | | 30,007 | — | — | — | 57,093 | 87,100 |
| Financial liabilities | | | | | | | | |
| Payables | 15 | — | — | — | — | — | 38,409 | 38,409 |
| Interest bearing liabilities [1] | 16 | 6.9% | 39,748 | 1,934 | 35,967 | 4,537 | — | 82,186 |
| Other financial liabilities | 18 | — | — | — | — | — | 27,905 | 27,905 |
| Employee entitlements | 33 | 5.6% | 48 | — | — | — | 65 | 113 |
| | | | 39,796 | 1,934 | 35,967 | 4,537 | 66,379 | 148,613 |
| Interest rate swaps and options[1] | | | (36,197) | 25,312 | 10,885 | — | — | — |

(1) The effect of interest rate hedging is incorporated into the weighted average interest rate.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**32. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)**

**b) Foreign exchange risk**

The consolidated entity enters into forward foreign exchange contracts and some option based products (smart forwards) to hedge a proportion of anticipated coal sale proceeds denominated in United States dollars and Australian dollar construction costs funded by United States dollar loans, subject to Board approved limits. The terms of these contracts are not more than 3 years. The amount of anticipated future sales and construction costs is forecast in light of current conditions in foreign markets, commitments from customers and to suppliers and experience. All sales from the first of each quarter, after allowing for the natural hedge designations referred to below, are designated as being hedged until all hedge contracts are fully utilised. Notes 1(e) and (f) set out the accounting treatment for foreign currency transactions and hedges.

The following table sets out the gross Australian dollar value to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity.

| | Consolidated | | | |
|---|---|---|---|---|
| | Weighted average rate | | Amount | |
| *Sell US dollars* | 2005 | 2004 | 2005 | 2004 |
| | | | A$'000 | A$'000 |
| Not later than one year | 0.7284 | 0.6631 | 407,369 | 142,556 |
| Later than one year but not later than two years | 0.7150 | 0.6414 | 43,670 | 57,189 |
| Later than two years but not later than three years | 0.7670 | — | 10,035 | — |
| | | | 461,074 | 199,745 |

The net deferred costs and exchange gains and losses on hedges of anticipated foreign currency sales and construction costs recognised in other assets and other liabilities at Notes 12 and 19 and the timing of their anticipated recognition as part of sales or construction costs are:

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**32. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)**

**b) Foreign exchange risk (continued)**

| | Consolidated Net gain/(loss) 2005 A$'000 | 2004 A$'000 |
|---|---|---|
| Not later than one year | 17,907 | 8,972 |
| Later than one year but not later than two years | 2,683 | 6,296 |
| Later than two years but not later than three years | (69) | — |
| | 20,521 | 15,268 |

***Foreign currency borrowings — specific natural hedge***

As described in Note 1(e), foreign currency borrowings have been designated as a specific hedge of future coal sales over the anticipated repayment term of the debt. The following table sets out the Australian dollar equivalent of United States dollar foreign currency borrowings used to hedge United States dollar coal sales, the weighted average exchange rate and the anticipated timing of recognition of any unrealised gains or losses at 30 June 2005:

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | Weighted average rate | | Amount | | Unrealised gains/(losses) | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | | | A$'000 | A$'000 | A$'000 | A$'000 |
| Not later than one year | 0.6186 | 0.6186 | 9,994 | 14,367 | 2,314 | 1,480 |
| Later than one year but not later than two years | 0.6186 | 0.6186 | 7,994 | 12,308 | 1,851 | 1,273 |
| Later than two years but not later than three years | 0.6186 | 0.6186 | 1,114 | 9,844 | 258 | 1,018 |
| Later than three years but not later than four years | — | 0.6186 | — | 5,834 | — | 603 |
| Later than four years but not later than five years | — | 0.6186 | — | 1,977 | — | 205 |
| | | | 19,102 | 44,330 | 4,423 | 4,579 |

The foreign currency borrowings are hedging anticipated coal sales. In accordance with the accounting policy note described in Note 1(f), any unrealised gains and losses on the hedge transactions will be recognised in the financial statements when the underlying transaction occurs.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**32. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)**

**c) Commodity price risk**

The consolidated entity has managed commodity sales price risk by entering into fixed price annual and long term contracts. Contracts are divided into three categories: contracts reviewed annually for price and tonnage; long term contracts entered into for fixed tonnage with annual price reviews; and fixed price and fixed tonnage long term contracts (being 22% for 2006, 4% for 2007 and 3% for 2008 financial years). The sales contracts are generally arranged on a Japanese fiscal year basis with years commencing on 1 April.

**d) Credit risk exposures**

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Recognised financial instruments

The credit risk on financial assets of the consolidated entity, which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity minimises concentrations of credit risk by undertaking transactions with a number of customers in various countries. Credit risk on customers is also reduced by entering into letters of credit with customers and discounting receivables on a limited recourse basis.

Concentration of credit risk at balance date on trade debtors are: Asia 43% (2004: 57%), Europe 44% (2004: 41%), Brazil 13%(2004: Nil%) and Other Nil% (2004: 2%).

Credit risk on cash, deposits and derivative contracts is managed by ensuring that counterparties are recognised financial intermediaries with acceptable credit ratings and using several counterparties for transactions.

Foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large financial institutions. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the consolidated entity pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the consolidated entity. The full amount of the exposure is included in Note 32(b) above.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**32. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)**

**e) Net fair values of financial assets and liabilities**

***Valuation approach***

*Recognised financial instruments*

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following bases:

Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable on-market yield having regard to the timing of the cash flows. The carrying amounts of bank term deposits, trade debtors, other debtors, accounts payable, bank loans and employee benefits approximate net fair value.

The valuation of financial instruments reflects the estimated amounts, which the consolidated entity expects to pay or receive to terminate the contracts (net of transaction costs), or replace the contracts at their current market rates as at reporting date. This is based on independent market quotations and determined using standard valuation techniques.

*Unrecognised financial instruments*

The valuation of financial instruments not recognised on the statement of financial position detailed in this note reflects the estimated amounts which the consolidated entity expects to pay or receive to terminate the contracts (net of transaction costs), or replace the contracts at their current market rates as at reporting date. This is based on independent market quotations and determined using standard valuation techniques.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**32. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)**

**e) Net fair values of financial assets and liabilities (continued)**

***Net fair values***

*Recognised financial instruments*

The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows:

| | Consolidated 2005 Carrying amount A$'000 | Consolidated 2005 Net fair value A$'000 | Consolidated 2004 Carrying amount A$'000 | Consolidated 2004 Net fair value A$'000 |
|---|---|---|---|---|
| Financial Assets | | | | |
| Cash assets | 18,138 | 18,138 | 11,775 | 11,775 |
| Receivables | 38,368 | 38,368 | 32,556 | 32,556 |
| Other financial assets | | | | |
| • Foreign currency contracts | 22,426 | 18,962 | 24,352 | 19,501 |
| • Bank accounts | 58,630 | 58,630 | 18,417 | 18,417 |
| *Financial Liabilities* | | | | |
| Payables | 61,346 | 61,346 | 38,409 | 38,409 |
| Interest bearing liabilities | | | | |
| • Redeemable convertible notes | 5,627 | 27,825 | 29,871 | 39,141 |
| • Other | 30,825 | 30,825 | 52,315 | 52,315 |
| Other financial liabilities | | | | |
| • Foreign currency contracts | 1,906 | 3,133 | 9,084 | 8,718 |
| • Other | 15,599 | 15,599 | 18,823 | 18,823 |
| Employee entitlements | 237 | 237 | 113 | 113 |

Cash assets, bank accounts and the redeemable convertible notes are readily traded on organised markets in a standardised form. All other financial assets and liabilities are not readily traded on organised markets in a standardised form.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**32. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)**

**e) Net fair values of financial assets and liabilities (continued)**

***Net fair values (continued)***

*Unrecognised financial instruments*

The net fair value of financial instruments not recognised on the statement of financial position held as at the reporting date are:

| | Consolidated | |
|---|---|---|
| | **2005** | **2004** |
| | A$'000 | A$'000 |
| Interest rate swaps and options | 333 | 370 |

**33. EMPLOYEE BENEFITS**

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | **2005** | **2004** | **2005** | **2004** |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| Aggregate liability for employee entitlements, including on-costs: | | | | | |
| • Current | | | | | |
| Employee benefits provision | 17 | 198 | 65 | 198 | 65 |
| • Non-current | | | | | |
| Employee benefits provision | 17 | 39 | 48 | 39 | 48 |
| | | 237 | 113 | 237 | 113 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**33. EMPLOYEE BENEFITS (continued)**

The present values of employee entitlements not expected to be settled within twelve months of reporting date have been calculated using the following weighted averages:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| • Assumed rate of increase in wage and salary rates | 3.60% | 3.20% | 3.60% | 3.20% |
| • Discount rate | 5.10% | 5.57% | 5.10% | 5.57% |
| • Settlement term (years) | 10 | 10 | 10 | 10 |
| **Number of employees** | | | | |
| Number of employees at year end | 19 | 14 | 18 | 13 |

**Superannuation plans**

The Company and its controlled entities contribute to several defined contribution superannuation plans.

**Directors' Option Plan**

The Company has a Directors' Option Plan for the Board of Directors.

There are no voting rights attached to unissued ordinary shares. Voting rights will be attached to unissued ordinary shares when the options have been exercised.

All options expire on the earlier of their expiry date or the date the holder ceases to be a director of the Company or the date the holder is dismissed for misconduct or for reasons involving fraud.

Unissued ordinary shares of the Company under option are:

| Issue date | Expiry date | Exercise price | Number of options at beginning of year | Options issued | Options exercised | Number of options at end of year |
|---|---|---|---|---|---|---|
| **2005** | | | | | | |
| 5 July 2001 | 4 July 2006 | A$1.15 | 200,000 | — | 200,000 | — |
| 5 July 2001 | 4 July 2006 | A$1.30 | 300,000 | — | 300,000 | — |
| 5 July 2001 | 4 July 2006 | A$1.45 | 300,000 | — | 300,000 | — |
| | | | 800,000 | — | 800,000 | — |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**33. EMPLOYEE BENEFITS (continued)**

**Directors' Option Plan (continued)**

| Issue date | Expiry date | Exercise price | Number of options at beginning of year | Options issued | Options exercised | Number of options at end of year |
|---|---|---|---|---|---|---|
| **2004** | | | | | | |
| 5 July 2001 | 4 July 2006 | A$1.15 | 300,000 | — | 100,000 | 200,000 |
| 5 July 2001 | 4 July 2006 | A$1.30 | 300,000 | — | — | 300,000 |
| 5 July 2001 | 4 July 2006 | A$1.45 | 300,000 | — | — | 300,000 |
| | | | 900,000 | — | 100,000 | 800,000 |

The market price of shares under these options as at 30 June 2005 was A$7.45 (2004: A$2.01).

During the financial year, the Company issued 800,000 ordinary shares as a result of the exercise of options (2004: 100,000). The fair value of shares issued as a result of exercising the options during the reporting period at their issue date is the market price of shares of the Company on the Australian Stock Exchange as at close of trading.

The amounts recognised in the financial statements of the Company and consolidated entity in relation to director share options exercised during the financial year were:

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| Issued ordinary share capital | 20 | 1,055 | 115 | 1,055 | 115 |

No options expired during the year ended 30 June 2005 (2004: Nil).

**Executive Option Plan**

The Company has an Executive Option Plan for key employees of the Company and Macarthur Coal (C&M Management) Pty Ltd (formerly Australian Premium Coals Pty Ltd), an associated entity.

There are no voting rights attached to unissued ordinary shares. Voting rights will be attached to unissued ordinary shares when the options have been exercised.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**33. EMPLOYEE BENEFITS (continued)**

**Executive Option Plan (continued)**

All options expire on the earlier of their expiry date or the date the holder ceases to be an executive or the date the holder is dismissed for misconduct or for reasons involving fraud.

Unissued ordinary shares of the Company under option are:

| Issue date | Expiry date | Exercise price | Number of options at beginning of year | Options issued | Options exercised | Options lapsed | Number of options at end of year |
|---|---|---|---|---|---|---|---|
| **2005** | | | | | | | |
| 5 July 2001 | 4 July 2006 | A$1.15 | 90,000 | — | 90,000 | — | — |
| 5 July 2001 | 4 July 2006 | A$1.30 | 300,000 | — | 250,000 | — | 50,000 |
| 5 July 2001 | 4 July 2006 | A$1.45 | 300,000 | — | 240,000 | — | 60,000 |
| | | | 690,000 | — | 580,000 | — | 110,000 |
| **2004** | | | | | | | |
| 5 July 2001 | 4 July 2006 | A$1.15 | 300,000 | — | 210,000 | — | 90,000 |
| 5 July 2001 | 4 July 2006 | A$1.30 | 300,000 | — | — | — | 300,000 |
| 5 July 2001 | 4 July 2006 | A$1.45 | 300,000 | — | — | — | 300,000 |
| | | | 900,000 | — | 210,000 | — | 690,000 |

The market price of shares under these options at 30 June 2005 was A$7.45 (2004: A$2.01).

During the financial year, the Company issued 580,000 ordinary shares as a result of the exercise of options (2004: 210,000). The fair value of shares issued as a result of exercising the options during the reporting period at their issue date is the market price of shares of the Company on the Australian Stock Exchange as at close of trading.

The amounts recognised in the financial statements of the Company and consolidated entity in relation to executive share options exercised during the financial year were:

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | **2005** | **2004** | **2005** | **2004** |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| Issued ordinary share capital | 20 | 777 | 241 | 777 | 241 |

No options expired during the year ended 30 June 2005 (2004: Nil).

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**33. EMPLOYEE BENEFITS (continued)**

**Employee Share Plan**

The Company established an Employee Share Plan (ESP) which was used to provide an opportunity for employees to participate in the Initial Public Offering. On 2 July 2001, 180,000 shares were issued to 60 eligible employees at an issue price of A$1.00 per share with a limit of 3,000 shares per employee.

All shares issued under the ESP rank equally with all other shares for time being on issue.

The Company provided interest free loans to employees to enable them to acquire shares under ESP to 100% of the total acquisition price for the shares. Any dividends declared on the shares issued under ESP will, to the extent determined by the directors, be first used to offset any loans outstanding on the shares. Employees have also provided irrevocable authority to the Company to deduct 1% of their gross salary each month in repayment of the loan.

The loan will be repayable:

a) if default is made by the employee on the repayment of the loan; or

b) the employee's employment with the Company, its subsidiary or associate or the relevant contractor is terminated for any reason; or

c) the employee becomes insolvent or commits an act of bankruptcy.

The Company holds security over the shares the subject of a loan until the loan is repaid.

The market price of shares issued under the ESP as at 30 June 2005 was A$7.45 (2004: A$2.01).

There were no other shares eligible for issuance under ESP at 30 June 2005.

The amount recognised in the financial statements of the consolidated entity and the Company in relation to employee shares during the year were:

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | **2005** | **2004** | **2005** | **2004** |
| | Note | A$ | A$ | A$ | A$ |
| Issued ordinary share capital (180,000 shares at A$1 each) | 20 | 180,000 | 180,000 | 180,000 | 180,000 |
| Employee loans payable at 30 June 2005 | 9 | 6,744 | 26,362 | 6,744 | 26,362 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

**Transition management**

The consolidated entity has established a formal implementation project, monitored by the Audit and Risk Management Committee, to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

***Assessment and planning phase***

The assessment and planning phase involved a high level overview of the impacts on conversion to AIFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and resources.

The assessment and planning phase included:

- High level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS
- Assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes
- Evaluation of the resource implications, particularly with reference to staff and their training requirements
- Preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The assessment and planning phase was completed by 31 December 2004.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**Transition management (continued)**

***Design phase***

The design phase formulated the changes required to existing accounting policies, procedures, systems and processes in order to transition to AIFRS. The design phase included a project team working on various material impact areas identified in the assessment and planning place as well as transitional elections and new business systems required.

The design phase incorporated:

- Formulation of revised accounting policies and procedures for compliance with AIFRS requirements
- Identification of potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of AIFRS
- Formulation of accounting and business processes to support AIFRS reporting obligations
- Identification of required changes to financial reporting and business source systems, and
- Development of training programs for staff.

The design phase is substantially complete at 30 June 2005.

***Implementation phase***

The implementation phase includes implementation of identified changes and the procedures, processes, systems, training and development of revised AIFRS disclosures required to enable the consolidated entity to generate the required disclosures of AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*.

This phase is substantially complete at 30 June 2005.

**Impact of transition to AIFRS**

The impact of transition to AIFRS, including the transitional adjustments disclosed in the reconciliations from current Australian GAAP to AIFRS, and the selection and application of AIFRS accounting policies, are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report. Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance to AIFRS. Accordingly, this note only provides a summary. Further disclosure and explanation will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**Impact of transition to AIFRS (continued)**

The final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this note as there is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS.

Further, revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report

- additional guidance on the application of AIFRS in a particular industry or to a particular transaction

- changes to the Company's and consolidated entity's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations. Due to the uncertainty relating to the accounting guidance no additional disclosure is made in the relevant accounting policy notes.

The rules for first time adoption of AIFRS are set out in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below:

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**Impact of transition to AIFRS (continued)**

**a) Exploration and evaluation**

Under AASB 6 *Exploration for and Evaluation of Mineral Resources*, the consolidated entity will continue to capitalise exploration and evaluation costs if:

- the rights to tenure of the area of interest are current; and either
- the expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

The consolidated entity will be required to impairment test capitalised exploration and evaluation costs if there is an impairment indicator such as:

- the right to explore has expired during the period or will expire in the near future and is not expected to be renewed
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned
- exploration and evaluation in the specific area has not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area
- sufficient data exists to indicate that the carrying amount of the asset is unlikely to be recovered in full from successful development or by sale even if development in the specific area is likely to proceed.

In the event of impairment, write-downs to the statement of financial performance will occur. Any subsequent increments are also recognised in the statement of financial performance to the extent that it is a reversal of the previous write-down.

Under AASB 6 costs incurred before an entity has legal right of access to an exploration area must be expensed. For the consolidated entity, at 1 July 2004 an amount of A$39,000 is expected to be reclassified from exploration and evaluation to retained earnings. The expected adjustment to profit and loss for the year ended 30 June 2005 is A$128,000 (decrease in operating profit before tax) and decrease in capitalised exploration and evaluation costs at 30 June 2005 of A$167,000.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**Impact of transition to AIFRS (continued)**

**a) Exploration and evaluation (continued)**

No adjustments are expected for the Company.

A significant variation to the current AASB 1022 *Accounting for the Extractive Industries* is that development and construction costs cannot be capitalised under AASB 6 and must be guided by AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* and the AASB framework. Accordingly, development and construction costs will be required to meet asset recognition criteria and will be subject to impairment testing. The consolidated entity has no areas of interest in the development phase at 1 July 2004 or at 30 June 2005. Therefore, there will be no impact on transition.

**b) Income tax**

On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

The majority of the income tax adjustments resulting from the transition to AIFRS for the consolidated entity are:

- A deferred tax liability will be recognised in relation to interests in mining tenements acquired prior to 1 July 2001.
- Share capital in the Company will be increased for the future tax benefits of float costs recognised in share capital.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

**Impact of transition to AIFRS (continued)**

**b) Income tax (continued)**

| | Consolidated | The Company |
|---|---|---|
| | A$'000 | A$'000 |
| The expected impacts from the change in basis and the transition adjustments on the deferred tax balances and the previously reported income tax expense recognised by the consolidated entity and the Company at 1 July 2004 are: | | |
| • increase in deferred tax assets | 833 | 747 |
| • increase in deferred tax liabilities | 27,953 | — |
| • increase in share capital | 1,476 | 1,476 |
| • net decrease in retained earnings | 28,596 | 729 |
| The expected impact on the income tax expense for the financial year ended 30 June 2005 is: | | |
| • increase/(decrease) in income tax expense | (3,645) | 290 |
| The expected impacts on the statements of financial position at 30 June 2005 are: | | |
| • increase in deferred tax assets | 1,067 | 457 |
| • increase in deferred tax liabilities | 24,746 | — |
| • increase in share capital | 1,476 | 1,476 |

***Tax consolidation***

The Urgent Issues Group (UIG) has considered the recognition of tax amounts under the tax consolidation regime under the AIFRS framework. It is proposed that wholly owned subsidiaries in the tax consolidated group will be required to recognise their own deferred tax balances directly and the current tax liability or asset will be assumed by the head entity. The consolidated entity intends to amend its tax sharing agreement prior to 30 June 2006.

**c) Rehabilitation and dismantling provisions**

Under current Australian GAAP, provisions are made for the estimated cost of rehabilitation relating to areas disturbed during the mine operations up to reporting date but not yet rehabilitated, as if the mine was shutdown at reporting date. The provision is mostly determined on an undiscounted basis based on current costs, current legal requirements and current technology. Only the costs per hectare for rehabilitation of long term building and infrastructure areas are discounted to their present value. In addition, the discounted costs relating to the building and infrastructure areas are capitalised as an asset and amortised over the economic life of the mine on a units of production basis.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**Impact of transition to AIFRS (continued)**

**c) Rehabilitation and dismantling provisions (continued)**

Under Australian GAAP, some initial rehabilitation costs associated with infrastructure assets were expensed. Under AIFRS the present value of these costs is required to be included in the cost of property, plant and equipment and will need to be adjusted against retained earnings. This will be an increase in retained earnings as these costs have previously been expensed.

Under AIFRS, dismantling costs associated with the coal preparation plants will be provided for and will be required to be included in the cost of the asset. These capitalised costs will be depreciated over the life of the asset.

Also under AIFRS, the present value of rehabilitation obligations is recognised at commencement of the mining project where a legal or constructive obligation exists at that time. The provision is recognised as a non-current liability with a corresponding asset recognised in relation to the mine site. At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates, and timing or amount of the costs to be incurred. As the assets are not revalued, any changes in the liability are added or deducted from the related asset, other than the unwinding of the discount which is recognised as interest expense in the statement of financial performance as it occurs.

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written-down to nil and the excess is recognised immediately in profit or loss. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying amount is considered. Where there is an indication that the new carrying amount is not fully recoverable an impairment test is performed, with the write-down recognised in the statement of financial performance in the period in which it occurs.

At transition, the rehabilitation provision recognised under Australian GAAP was decreased to the present value of the required rehabilitation provision under AIFRS. An asset was recognised as the amount of the liability discounted to acquisition date, and accumulated depreciation was calculated on this amount from acquisition to transition date.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**Impact of transition to AIFRS (continued)**

**c) Rehabilitation and dismantling provisions (continued)**

| | **Consolidated** |
|---|---|
| | A$'000 |
| The expected adjustments at transition relating to rehabilitation and dismantling provisions recognised by the consolidated entity at 1 July 2004 are: | |
| • increase in rehabilitation and dismantling provisions | 924 |
| • increase in property, plant and equipment | 4,080 |
| • increase in accumulated depreciation | 385 |
| • net increase in retained earnings | 2,771 |
| The expected impact on the consolidated entity for the year ended 30 June 2005 is: | |
| • decrease in operating profit before tax | 919 |
| The expected impacts on the consolidated entity's statement of financial position at 30 June 2005 are: | |
| • increase in rehabilitation and dismantling provisions | 1,527 |
| • increase in property, plant and equipment | 4,153 |
| • increase in accumulated depreciation | 774 |

No adjustments are expected to arise in the Company.

**d) Impairment of assets**

Under current Australian GAAP the carrying amounts of non-current assets valued on a cost basis, other than exploration and evaluation expenditure carried forward, are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written-down to the lower amount, with the write-down recognised in the statement of financial performance in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under current Australian GAAP the collectability of receivables is assessed at each reporting date and a provision is raised based on the age of the outstanding overdue balance to allow for doubtful accounts.

Under AIFRS, the carrying amount of the consolidated entity's and Company's non-current assets, excluding deferred tax assets will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**Impact of transition to AIFRS (continued)**

**d) Impairment of assets (continued)**

If there is any indication that an asset is impaired (or for those tested annually), the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

A cash generating unit is the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets, each cash-generating unit must be no larger than a segment. On transition and for the year ended 30 June 2005 the consolidated entity has determined that the major cash generating units will constitute the Coppabella Mine and Moorvale Mine individually.

An impairment loss will be recognised whenever the carrying amount of an asset, or its cash generating unit, exceeds its recoverable amount. Impairment losses will be recognised in the statement of financial performance.

Impairment losses recognised in respect of a cash generating unit will be allocated to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts.

The consolidated entity's current Australian GAAP accounting policy to use undiscounted cash flows is considered to be an impairment trigger on transition. No adjustments are expected to arise in the consolidated entity or the Company as at transition date of 1 July 2004 or at 30 June 2005.

***Calculation of recoverable amount***

Under current Australian GAAP, the recoverable amount of non-current assets was assessed at an entity level using undiscounted cash flows.

Under AIFRS the recoverable amount of the Company's and consolidated entity's receivables carried at amortised cost will be calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (ie the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration (ie less than 12 months) are not discounted.

The recoverable amount of other assets will be the greater of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows will be discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or cash generating unit. Cash flows will be estimated for the asset or cash generating unit in its current condition and therefore will not include cash inflows and outflows improving or enhancing the asset's performance or expected to arise from future restructuring not yet committed to at testing date.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**Impact of transition to AIFRS (continued)**

**d) Impairment of assets (continued)**

No adjustment is expected from the change in the basis of impairment testing for trade receivables for the consolidated entity.

***Reversals of impairment***

Under current Australian GAAP impairment losses have not been reversed.

Under AIFRS an impairment loss will be reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss will be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

There is no expected impact of this change in treatment on transition and as at 30 June 2005.

**e) Property, plant and equipment**

Property, plant and equipment will be measured at cost under AIFRS. No adjustment is expected for the consolidated entity or the Company on transition.

As carrying amounts, depreciation rates and useful economic lives are not expected to change there is no effect on the statement of financial performance for the financial year ended 30 June 2005.

Under AIFRS the gain or loss on the disposal of property, plant and equipment will be recognised on a net basis as a gain or loss rather than separately recognising the consideration received as revenue. No adjustments are expected for the Company or consolidated entity for the financial year ended 30 June 2005.

**f) Business combinations**

As permitted by the election available under AASB 1, the classification and accounting treatment of business combinations that occurred prior to transition date have not been restated in preparing the opening AIFRS balance sheet. The assets and liabilities are then subject to the other requirements of AASB 1, as discussed.

No adjustments are expected for the consolidated entity or the Company on transition.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**Impact of transition to AIFRS (continued)**

**g) Employee benefits**

***Share based payments***

Under current Australian GAAP no expense is recognised for options issued to employees.

Under AIFRS, the fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date taking into account market performance conditions only, and the spread over the vesting period during which the employees becomes unconditionally entitled to the options.

No adjustment will be made for options granted before 7 November 2002 which have vested before 1 January 2004. On transition all options had vested prior to 1 January 2004 resulting in no adjustment on transition or 30 June 2005.

**h) Borrowing costs**

Current Australian GAAP requires borrowing costs relating to qualifying assets to be capitalised as part of the cost of the asset.

Under AIFRS borrowing costs may either be recognised as an expense in the period in which they are incurred, or where they are directly attributable to the acquisition, construction or production of a qualifying asset they may be capitalised as part of the cost of the asset.

The consolidated entity expects to apply the allowed alternative treatment under AASB 123 and therefore will continue to capitalise borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset.

There is no expected impact on either the Company or the consolidated entity.

**i) Earnings per share**

Under AIFRS basic and diluted earnings per share are calculated using the profit or loss from continuing operations attributable to the ordinary equity holder of the parent entity.

The earnings per share for the financial year ended 30 June 2005 calculated on the AIFRS adjusted results are expected to be:

| | |
|---|---|
| Basic EPS from continuing operations: | 39.4 cents per share |
| Diluted EPS from continuing operations: | 38.4 cents per share |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**Impact of transition to AIFRS (continued)**

**j) Leases**

***Property leases – make good provisions***

The consolidated entity has an operating lease that requires the asset to be returned to the lessor in its original condition. The operating lease payments do not include an element for the repairs/overhauls.

Under current Australian GAAP the costs of refurbishment are not recognised until the expenditure is incurred, whereas under AIFRS a provision for refurbishment costs must be recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date.

At 1 July 2004 a provision for make good costs associated with this operating lease is expected to be recognised by the consolidated entity and Company. The amount of this provision is not expected to be significant.

***Other arrangements***

The consolidated entity is a party to a mining contract for the Coppabella Mine. The arrangements include the use of a dragline to which the consolidated entity has provided a residual value guarantee (refer Note 27). The consolidated entity is currently assessing whether the Coppabella Dragline Agreement is in substance a lease and therefore should be accounted for in accordance with the requirements of AASB 117 *Leases*.

If the arrangements satisfy the definition of a finance lease it would result in increases in property, plant and equipment and interest bearing liabilities. The impact on the statement of financial position has not yet been quantified. It is not expected that any changes to the statement of financial performance would be significant.

There will be no expected impact on the Company.

**k) Financial instruments**

The consolidated entity and Company expects to take advantage of the election AASB 1 to not restate comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments*: *Recognition and Measurement*. There are no expected adjustments in relation to these standards for 1 July 2004 or the financial year ended 30 June 2005 as current Australian GAAP is expected to continue to apply.

The entity has followed Australian GAAP in accounting for financial instruments within the scope of AASB 132 and AASB 139 as described in Note 1 Statement of significant accounting policies.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

**34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**Impact of transition to AIFRS (continued)**

**k) Financial instruments (continued)**

As at 1 July 2005 the expected adjustments are:

- Recognition of all derivatives on the balance sheet at fair value.

- Under current Australian GAAP for foreign exchange derivatives the principles of hedge accounting has been applied. Accordingly, unrealised gains/losses have been recognised as liabilities or assets. On adoption of AASB 139 the unrealised gain or loss on the hedging instrument that is determined to be an effective hedge will be recognised in equity. Any ineffective portion will be recognised in retained earnings.

- Debt establishment costs capitalised and amortised over the term of the borrowing under current Australian GAAP will be recalculated based on the effective interest rate method and recognised as part of the liability rather than as a separate asset. This is not expected to be material on transition.

- The Company and consolidated entity have long term receivables with controlled entities and related entities respectively. AASB 139 requires that receivables are carried at amortised cost using the effective interest method. The expected impact on the Company and the consolidated entity has not yet been quantified.

**Summary of transitional adjustments**

The following sets out the expected significant adjustments to the statements of financial position of the Company and the consolidated entity at transition to AIFRS as at 1 July 2004:

**Reconciliation of equity**

| | Consolidated 1 July 2004 | | |
|---|---|---|---|
| | **Retained earnings** | **Share capital** | **Total equity** |
| | A$'000 | A$'000 | A$'000 |
| Closing equity balance at 30 June 2004 under AGAAP | 24,398 | 155,053 | 179,451 |
| Pre-acquisition exploration and evaluation costs | (39) | — | (39) |
| Rehabilitation and dismantling costs | 2,771 | — | 2,771 |
| Income tax adjustments | (28,596) | 1,476 | (27,120) |
| Opening equity at 1 July 2004 under AIFRS | (1,466) | 156,529 | 155,063 |

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

**Summary of transitional adjustments (continued)**

**Reconciliation of equity (continued)**

| | The Company 1 July 2004 | | |
|---|---|---|---|
| | **Retained earnings** | **Share capital** | **Total equity** |
| | A$'000 | A$'000 | A$'000 |
| Closing balance at 30 June 2004 under AGAAP | 1,201 | 155,053 | 156,254 |
| Income tax adjustments | (729) | 1,476 | 747 |
| Opening retained earnings at 1 July 2004 under AIFRS | 472 | 156,529 | 157,001 |

The following sets out the expected significant adjustments to the statements of financial performance of the Company and the consolidated entity for the year ended 30 June 2005.

**Reconciliation of profit for the financial year ended 30 June 2005**

| | **Consolidated 30 June 2005** | **The Company 30 June 2005** |
|---|---|---|
| | A$'000 | A$'000 |
| Net profit after tax under AGAAP | 61,420 | 21,594 |
| Pre-acquisition exploration costs expensed | (128) | — |
| Rehabilitation and interest expense | (530) | — |
| Depreciation expense | (389) | — |
| Income tax benefit/(expense) | 3,645 | (290) |
| Net profit after tax under AIFRS | 64,018 | 21,304 |

The following sets out the expected significant adjustments to the statements of financial position of the Company and the consolidated entity as at 30 June 2005.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

**Summary of transitional adjustments (continued)**

**Reconciliation of equity**

| | Consolidated 30 June 2005 | | |
|---|---|---|---|
| | **Retained earnings** | **Share capital** | **Total equity** |
| | A$'000 | A$'000 | A$'000 |
| Closing balance at 30 June 2005 under AGAAP | 68,067 | 181,086 | 249,153 |
| Adjustments from AIFRS on transition | (25,864) | 1,476 | (24,388) |
| Adjustments from AIFRS for the year ending 30 June 2005 | 2,598 | — | 2,598 |
| Opening retained earnings at 1 July 2005 under AIFRS | 44,801 | 182,562 | 227,363 |

| | The Company 30 June 2005 | | |
|---|---|---|---|
| | **Retained earnings** | **Share capital** | **Total equity** |
| | A$'000 | A$'000 | A$'000 |
| Closing balance at 30 June 2005 under AGAAP | 5,044 | 181,086 | 186,130 |
| Adjustments from AIFRS on transition | (729) | 1,476 | 747 |
| Adjustments from AIFRS for the year ending 30 June 2005 | (290) | — | (290) |
| Opening retained earnings at 1 July 2005 under AIFRS | 4,025 | 182,562 | 186,587 |

### 35. EVENTS SUBSEQUENT TO BALANCE DATE

**Monto Thermal Coal Project**

On 28 July 2005 the Company announced that Monto Coal 2 Pty Ltd, a controlled entity of the Company, entered into an agreement with a member of the China Huaneng Group (CHNG) to sell half of the consolidated entity's existing 51% interest in the Monto thermal coal project (25.5%) for a total consideration of approximately A$29.423 million, subject to the satisfaction of several conditions precedent.

The consideration is payable in two tranches:

- A$12 million is payable on the completion date, following satisfaction of conditions precedent
- A$17.423 million is payable following completion of proving reserves within the tenements, completion of Stage 2 (10 million tonnes per annum) feasibility study and a decision being made by the joint venture participants to proceed with Stage 2 development.

## NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

### 35. EVENTS SUBSEQUENT TO BALANCE DATE (continued)

One of the conditions precedent of the transaction involves obtaining agreement from the other Monto Coal Joint Venture participants to a revised development plan for the Monto Project. The plan involves an extensive exploration programme and major feasibility study for up to a 10 million tonne per annum operation. The feasibility study will involve the establishment of a trial opencut test pit mining operation. The drilling and feasibility study program is likely to take between two to three years to complete.

It is expected that CHNG will become a substantial consumer of coal produced from the Monto Project. The transaction will not be completed until a number of conditions precedent have been satisfied or waived, including:

(i) Applicable Australian, Queensland and People's Republic of China government regulatory approvals in relation to the proposed transaction being obtained;

(ii) The pre-emptive rights under the Monto Coal Joint Venture agreement applicable to the 25.5% interest which the consolidated entity proposes to transfer being waived or not exercised, and the other participants consenting to the transfer of that interest to CHNG;

(iii) The consolidated entity and CHNG negotiating and agreeing certain variations to the existing joint venture documentation with the other joint venture participants, including agreeing a new development plan for the Monto Project;

(iv) The project manager and CHNG negotiating and executing a coal offtake management agreement in relation to CHNG's 25.5% share of coal produced from the Monto Coal Joint Venture; and

(v) The project marketing agent and CHNG negotiating and executing a coal handling and transport agreement in relation to CHNG's 25.5% share of coal produced from the Monto Coal Joint Venture.

**Dividends**

For dividends declared after 30 June 2005, refer Note 22.

**International Financial Reporting Standards**

For reporting periods beginning on or after 1 January 2005 the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 34 to the financial statements.

## DIRECTORS' DECLARATION

1. In the opinion of the directors of Macarthur Coal Limited ("the Company"):

   a. the financial statements and notes, set out on pages 64 to 115 are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

      (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

   b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2005.

Dated at Brisbane this 22nd day of August 2005.

Signed in accordance with a resolution of the directors:

**Hon. Keith De Lacy**
*Chairman*

## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MACARTHUR COAL LIMITED

### SCOPE

**The financial report and directors' responsibility**

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes 1 to 35 to the financial statements and the directors' declaration set out on pages 64 to 116, and the disclosures made by the Company in accordance with the Corporations Regulations 2001 as required by AASB 1046 *Director and Executive Disclosures by Disclosing Entities* in the "Remuneration report" in the Directors' report set out on pages 57 to 60 for both Macarthur Coal Limited (the "Company") and Macarthur Coal Limited and its controlled entities (the "consolidated entity"), for the year ended 30 June 2005. The consolidated entity comprises both the Company and the entities it controlled during the year.

The Remuneration report also contains information in sections marked as "unaudited" not required by Accounting Standard AASB 1046 *Director and Executive Disclosures by Disclosing Entities*, which is not subject to our audit.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report and the Remuneration report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

**Audit approach**

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001.

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MACARTHUR COAL LIMITED (continued)**

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

**AUDIT OPINION**

In our opinion, the financial report including the remuneration disclosures that are contained in sections marked as "audited" of the Remuneration report in the Directors' report of Macarthur Coal Limited are in accordance with:

a. the *Corporations Act 2001*, including:

 (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

 (ii) complying with Accounting Standards in Australia, including AASB 1046 *Director and Executive Disclosures By Disclosing Entities* and the Corporations Regulations 2001; and

b. other mandatory financial reporting requirements in Australia.

**KPMG**
**Robert S Jones**
*Partner*

Brisbane
22 August 2005

**INCOME STATEMENTS**
FOR THE YEAR ENDED 30 JUNE 2006

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | **2006** | **2005** | **2006** | **2005** |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| Revenue from coal sales | 2 | 534,755 | 370,157 | — | — |
| Cost of coal sold | | (287,574) | (232,509) | — | — |
| **Gross profit** | | 247,181 | 137,648 | — | — |
| Other income | 3 | 2,463 | 161 | 64,944 | 21,031 |
| Distribution expenses | | (22,836) | (29,765) | — | — |
| Administration expenses | | (14,325) | (8,584) | (10,680) | (6,496) |
| Other expenses | 4 | (893) | (4,787) | (84) | (25) |
| **Results from operating activities** | | 211,590 | 94,673 | 54,180 | 14,510 |
| Financial income | 7 | 7,644 | 2,385 | 8,694 | 10,518 |
| Financial expenses | 7 | (5,189) | (7,418) | (1,704) | (2,647) |
| **Net financing income/(costs)** | | 2,455 | (5,033) | 6,990 | 7,871 |
| **Profit before tax** | | 214,045 | 89,640 | 61,170 | 22,381 |
| Income tax (expense)/benefit | 8(a) | (64,456) | (25,493) | 55 | (917) |
| **Profit for the year attributable to equity holders of the parent** | | 149,589 | 64,147 | 61,225 | 21,464 |
| **Earnings per share for profit attributable to the ordinary equity holders of the Company:** | | | | | |
| Basic earnings per share from continuing operations | 10 | A$0.83 | A$0.40 | | |
| Diluted earnings per share from continuing operations | 10 | A$0.83 | A$0.39 | | |
| **Dividends per share — ordinary shares** | 24 | A$0.41 | A$0.18 | | |

The income statements are to be read in conjunction with the notes of the financial statements set out on pages 76 to 129.

**STATEMENTS OF RECOGNISED INCOME AND EXPENSE**
FOR THE YEAR ENDED 30 JUNE 2006

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | **2006** | **2005** | **2006** | **2005** |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| **Recognised directly in equity** | | | | | |
| Cash flow hedges: | | | | | |
| Losses taken to equity | | (4,089) | — | — | — |
| Gains transferred to income statement | | (8,595) | — | — | — |
| **Net expense recognised directly in equity** | 24 | (12,684) | — | — | — |
| **Profit for the period** | | 149,589 | 64,147 | 61,225 | 21,464 |
| **Total recognised income and expense for the period attributable to equity holders of the parent** | 24 | **136,905** | **64,147** | **61,225** | **21,464** |
| **Effect of change in accounting policy** | | | | | |
| Effect of adoption of AASB 132 and AASB 139 on 1 July 2005 (with 2005 not restated): | | | | | |
| Net increase in Cash Flow Hedging Reserve: | | | | | |
| Cumulative changes in fair value of effective cash flow hedges | | 20,252 | — | — | — |
| Related deferred income tax | | (4,748) | — | — | — |
| | 24, 35 | 15,504 | — | — | — |

Other movements in equity arising from transactions with owners as owners are set out in Note 24.

The amounts recognised directly in equity are disclosed net of tax-see Notes 8 and 9 for tax effect.

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 79 to 129.

**BALANCE SHEETS**
AS AT 30 JUNE 2006

| | Note | Consolidated 2006 A$'000 | Consolidated 2005 A$'000 | The Company 2006 A$'000 | The Company 2005 A$'000 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | 11 | 168,603 | 18,138 | 18,038 | 17,685 |
| Trade and other receivables | 12 | 52,662 | 32,558 | 71,346 | 8,409 |
| Inventories | 13 | 15,412 | 24,075 | — | — |
| Other financial assets | 14 | 8,810 | 78,273 | — | — |
| Other assets | 15 | 74,206 | 46,206 | — | 257 |
| **Total current assets** | | **319,693** | **199,250** | **89,384** | **26,351** |
| **Non-current assets** | | | | | |
| Trade and other receivables | 12 | 4,603 | 13,016 | 185,299 | 126,754 |
| Other financial assets | 14 | — | 2,783 | 73,343 | 56,385 |
| Deferred tax assets | 9 | — | — | 547 | 664 |
| Property, plant and equipment | 16 | 170,107 | 177,893 | 798 | 138 |
| Exploration and evaluation assets | 17 | 94,809 | 40,390 | — | — |
| Other assets | 15 | 2,904 | 7,330 | — | — |
| **Total non-current assets** | | **272,423** | **241,412** | **259,987** | **183,941** |
| **Total assets** | | **592,116** | **440,662** | **349,371** | **210,292** |
| **Current liabilities** | | | | | |
| Trade and other payables | 18 | 68,538 | 61,346 | 1,137 | 1,176 |
| Interest-bearing loans and borrowings | 19 | 1,931 | 26,662 | — | 5,627 |
| Income tax payable | 8(c) | 44,395 | 16,505 | 44,395 | 16,505 |
| Employee benefits | 20 | 506 | 198 | 438 | 198 |
| Provisions | 21 | 3,344 | 1,214 | — | — |
| Other financial liabilities | 22 | 3,272 | 4,807 | — | — |
| Other liabilities | 23 | — | 20,221 | — | — |
| **Total current liabilities** | | **121,986** | **130,953** | **45,970** | **23,506** |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 18 | — | — | 52,499 | — |
| Interest-bearing loans and borrowings | 19 | 8,785 | 9,790 | — | — |
| Deferred tax liabilities | 9 | 42,335 | 33,656 | — | — |
| Employee benefits | 20 | 156 | 39 | 156 | 39 |
| Provisions | 21 | 16,600 | 12,715 | 98 | — |
| Other financial liabilities | 22 | 11,081 | 12,698 | — | — |
| Other liabilities | 23 | — | 4,723 | — | — |
| **Total non-current liabilities** | | **78,957** | **73,621** | **52,753** | **39** |
| **Total liabilities** | | **200,943** | **204,574** | **98,723** | **23,545** |
| **Net assets** | | 391,173 | 236,088 | 250,648 | 186,747 |
| **Equity** | | | | | |
| Issued capital | 24 | 246,343 | 182,563 | 246,343 | 182,563 |
| Reserves | 24 | 2,820 | — | — | — |
| Retained earnings | 24 | 142,010 | 53,525 | 4,305 | 4,184 |
| **Total equity** | 24 | **391,173** | **236,088** | **250,648** | **186,747** |

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 76 to 129.

**STATEMENTS OF CASH FLOWS**
FOR THE YEAR ENDED 30 JUNE 2006

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | **2006** | **2005** | **2006** | **2005** |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| **Cash flows from operating activities** | | | | | |
| Cash receipts from customers | | 525,529 | 361,709 | 2,774 | 2,051 |
| Cash paid to suppliers and employees | | (303,899) | (259,095) | (16,839) | (6,036) |
| Cash generated from operations | | 221,630 | 102,614 | (14,065) | (3,985) |
| Dividends received | | — | — | 61,488 | 19,034 |
| Interest received | | 7,644 | 2,385 | 8,694 | 10,518 |
| Interest paid | | — | — | (1,122) | — |
| Income taxes refunded | | — | 8,847 | — | 8,847 |
| Income taxes paid | | (27,783) | (5,862) | (27,783) | (5,862) |
| **Net cash from operating activities** | 32 | 201,491 | 107,984 | 27,212 | 28,552 |
| **Cash flows from investing activities** | | | | | |
| Proceeds from sale of property, plant and equipment | | 380 | — | — | — |
| Acquisition of property, plant and equipment | | (7,301) | (5,848) | (744) | (85) |
| Exploration and evaluation expenditure | | (6,729) | (3,640) | — | — |
| Contributions (to)/from joint ventures | | 52,609 | (40,674) | — | — |
| Advances (to)/from subsidiaries | | — | — | 35,395 | (4,494) |
| Advances to related entities | | (1,868) | (6,408) | — | — |
| **Net cash from investing activities** | | 37,091 | (56,570) | 34,651 | (4,579) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from the issue of share capital | | 152 | 1,789 | 152 | 1,789 |
| Proceeds from borrowings | | — | 22,180 | — | — |
| Repayment of borrowings | | (20,434) | (43,826) | — | — |
| Payment of finance costs: | | | | | |
| Convertible notes | | (250) | (2,012) | (250) | (2,012) |
| Other | | (3,103) | (2,602) | — | — |
| Repayment of other financial liabilities | | (3,070) | (2,829) | — | — |
| Dividends paid | 24 | (61,412) | (17,751) | (61,412) | (17,751) |
| **Net cash from financing activities** | | (88,117) | (45,051) | (61,510) | (17,974) |
| Net increase in cash and cash equivalents | | 150,465 | 6,363 | 353 | 5,999 |
| Cash and cash equivalents at 1 July | | 18,138 | 11,775 | 17,685 | 11,686 |
| **Cash and cash equivalents at 30 June** | 11 | 168,603 | 18,138 | 18,038 | 17,685 |

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 76 to 129.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 1. SIGNIFICANT ACCOUNTING POLICIES

Macarthur Coal Limited (the 'the Company') is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the 'consolidated entity') and the consolidated entity's interest in associates.

The financial report was authorised for issue by Directors on 12 September 2006.

**(a) Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*.

International Financial Reporting Standards ('IFRS') form the basis of Australian Accounting Standards adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian AGAAP.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied.

An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in Note 34.

**(b) Basis of preparation**

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the Financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historic experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(b) **Basis of preparation (continued)**

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

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in accounting policy (ab).

**Issued standards early adopted**

The entity has elected to early adopt the following accounting standards and amendments as at transition date:

- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1023 *General Insurance Contracts*, AASB 1038 *Life Insurance Contracts*

- AASB 2005-5 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004) and AASB 139 *Financial Instruments: Recognition and Measurement*

- UIG 4 *Determining whether an Arrangement contains a Lease*.

**Issued standards not early adopted**

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements:

- AASB 7 *Financial Instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007

- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 3 *Business Combinations*. AASB 2005-6 is applicable to annual reporting periods beginning on or after 1 January 2006

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Basis of preparation (continued)

**Issued standards not early adopted (continued)**

- AASB 2005-9 *Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006

- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007

The consolidated entity plans to adopt the above standards and amendments in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard and the amendment are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the consolidated entity as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the Company and the consolidated entity. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company and the consolidated entity to date.

The initial application of AASB 2005-6 is not expected to have an impact on the financial results of the Company and the consolidated entity as the amendments are concerned with areas that the Company and the consolidated entity have not transacted in.

The following standards and amendments have been issued and are available for early adoption at reporting date. However, they have not been early adopted as they are not applicable to the Company and the consolidated entity and have no impact on their financial results:

- AASB 119 *Employee Benefits* (December 2004)

- AASB 1039 *Concise Financial Reports* (April 2005)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Basis of preparation (continued)**

**Issued standards not early adopted (continued)**

- AASB 2004-3 *Amendments to Australian Accounting Standards* (December 2004) amending AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 101 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures*

- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*

- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (either July or December 2004)

- AASB 2006-1 *Amendments to Australian Accounting Standards* (January 2006) amending AASB 121 *The Effects of Changes in Foreign Exchange Rates* (July 2004)

- AASB 2006-2 *Amendments to Australian Accounting Standards* (March 2006)

- UIG 5 *Rights to Interests arising* from *Decommissioning, Restoration and Environmental Rehabilitation Fund*s

- UIG 6 *Liabilities arising from participating in a Specific Market-Waste Electrical & Electronic Equipment*

- UIG 7 *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*

- UIG 8 *Scope of AASB 2*

- UIG 9 *Reassessment of Embedded Derivatives*

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards — AIFRS, except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB *139 Financial Instruments: Recognition and Measurement*. The Company and the consolidated entity have applied the AASB 1.36A exemption and elected not to apply AASB 132 and AASB 139 to the comparative period. A reconciliation of opening balances impacted by AASB 132 and AASB 139 at 1 July 2005 has been provided in Note 35.

The accounting policies have been applied consistently by all entities in the consolidated entity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) Basis of consolidation**

**Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial report from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

**Associates**

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. The consolidated financial statements includes the consolidated entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the consolidated entity's share of losses exceeds its interest in an associate, the consolidated entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has incurred legal or constructive obligations or made payments on behalf of an associate.

Investments in associates are carried at their cost of acquisition in the Company's financial statements.

**Joint ventures**

The interest of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

**Transactions eliminated on consolidation**

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the 'Investment in associates' and 'Share of associate's net profit accounts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) Basis of consolidation (continued)**

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Gains and losses are recognised as the contributed assets are consumed or sold by the associates or, if not consumed or sold by the associate, when the consolidated entity's interest in such entities is disposed of.

**(d) Foreign currency**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

**(e) Derivative financial instruments**

**Current accounting policy**

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational and financing activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy (f)).

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(e) Derivative financial instruments (continued)**

**Comparative period policy**

The consolidated entity is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The consolidated entity uses forward foreign exchange contracts to hedge foreign exchange risk and interest rate options and interest rate swaps to hedge interest rate risk. Derivative financial instruments are not held for speculative purposes.

The quantitative effect of the change in accounting policy is set out in Note 35.

**(f) Hedging**

**Current accounting policy**

On entering into a hedging relationship, the consolidated entity formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

*Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains and losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Hedging (continued)**

*Cash flow hedges (continued)*

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

**Comparative period policy**

*Anticipated transactions*

Transactions are designated as a hedge of the anticipated specific purchase or sale of goods or services, purchase of qualifying assets, or an anticipated interest transaction, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated.

Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction, when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the income statement.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the balance sheet from the date of inception of the hedge transaction. The net receivables or payables are revalued using the foreign currency rate current at reporting date.

The net amounts receivable or payable under open swaps and the associated deferred gains or losses are not recorded on the balance sheet until the hedge transaction occurs. When recognised the net receivables or payables are revalued using the interest rates current at reporting date.

Option premiums are recorded when paid and included in the measurement of the transaction when it occurs.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains and losses relating to the hedged transaction are recognised immediately in the income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Hedging (continued)**

**Comparative period policy (continued)**

*Anticipated transactions (continued)*

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains and losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the income statement for that period.

Where a hedge is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included in the income statement for that period.

Gains and losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains and losses are recognised immediately in the income statement.

*Other hedges*

All other hedge transactions are initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at reporting date are valued at the spot rate ruling on that date and any gains or losses are brought to account in the income statement.

Costs or gains arising at the time of entering into the hedge are deferred and amortised over the life of the hedge.

**(g) Property, plant and equipment**

**Owned assets**

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (n)). The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads. The cost of self-constructed assets and acquired assets includes:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(g) **Property, plant and equipment (continued)**

**Owned assets (continued)**

(i) the initial estimate at the time of installation and during the period of use, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located; and

(ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Mining property and development assets include costs transferred from exploration and evaluation assets once feasibility and commercial viability of an area of interest are demonstrable and subsequent costs to develop the mine to the production phase.

Where significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

**Subsequent costs**

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

**Depreciation**

Assets, excluding freehold land, that have limited useful lives and are depreciated using the straight line method over their estimated useful lives, taking into account estimated residual values, with the exception of mining property and development assets. Mining property and development assets are depreciated on a units of production basis over the life of the economically recoverable reserves, being 61,327,267 (2005: 74,524,110) tonnes for the Coppabella Mine and 20,458,515 (2005: 19,427,050) tonnes for the Moorvale Mine at the beginning of the financial year or, where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed, except to the extent that it is included in the carrying amount of another asset (eg inventory stocks) as an allocation of production overheads.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (g) Property, plant and equipment (continued)

**Depreciation (continued)**

The depreciation rates or useful lives used for each class of asset are as follows:

| | 2006 | 2005 |
|---|---|---|
| *Property, plant and equipment* | | |
| Mining property and development | 6 - 14 years | 7 - 15 years |
| Buildings and infrastructure | 6.5% - 40% | 6.5% - 40% |
| Plant and equipment | 13% - 40% | 13% - 40% |

The residual value is reassessed annually.

#### (h) Exploration and evaluation expenditure

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the consolidated entity has obtained the legal rights to explore an area are recognised in the Income Statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see accounting policy (n)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Any exploration conducted within an operating Mining Lease area is expensed as incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(i) Development expenditure**

Development costs related to an area of interest are capitalised if the expenditures are expected to be recouped through sale or successful exploitation of the area of interest. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses (see accounting policy (n)), and is included in Property, plant and equipment — Mining property and development (see accounting policy (g)).

**(j) Overburden in advance**

Expenditure incurred in the removal of overburden from coal deposits is deferred and expensed in operating expenditure as the coal is extracted. The balance of the amount deferred is reviewed at each reporting date to determine the amount (if any) which is no longer recoverable out of future revenue. Any amounts so determined are written-off.

**(k) Trade and other receivables**

**Current accounting policy**

Trade and other receivables are stated at amortised cost less impairment losses (see accounting policy (n)).

**Comparative period policy**

Trade and other receivables to be settled within 90 days are carried at amounts due.

The collectibility of debts is assessed at reporting date and where appropriate, specific provision is made for any doubtful accounts.

**(l) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is allocated on a monthly first in and first out basis and includes direct material, overburden removal, coal mining, coal processing, labour, related transportation costs to the point of sale and other fixed and variable overhead costs directly related to mining activities. The site overheads and rehabilitation cost component of inventory is allocated using standard costing. Depreciation is allocated to inventories on a units of production basis.

**(m) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories (see accounting policy (l)) and deferred tax assets (see accounting policy (x)), are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated to the carrying amount of the assets in the unit on a pro rata basis.

**Calculation of recoverable amount**

The recoverable amount of the consolidated entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (ie the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration (ie less than 12 months) are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Receivables are individually assessed for impairment.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**Reversals of impairment**

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment no longer exists and there has been a change in the estimates used to determine the recoverable amount.

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, net of depreciation or amortisation, if no impairment loss had been recognised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(o) Share capital**

**Current accounting policy**

*Dividends*

Dividends are recognised as a liability in the period in which they are declared.

*Transaction costs*

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

**Comparative period policy**

*Dividends*

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

*Transaction costs*

Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

**(p) Convertible notes**

**Current accounting policy**

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest rate method.

To the extent that the liability element of a compound financial instrument was no longer outstanding at 1 July 2004, the date of transition to Australian Accounting Standards — AIFRS, the amounts within equity that are attributable to the equity and liability elements have not been identified separately.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(p) Convertible notes (continued)**

**Comparative period policy**

Where convertible notes issued by the Company, give rise to a contractual obligation to deliver cash to the holder, they are classified as liabilities to the extent of the obligation.

Where financial instruments are redeemable at the option of the holder, redeemable at a fixed date with cumulative interest obligations, the proceeds received are classified as a liability and related distributions as interest expense.

**(q) Interest-bearing borrowings**

**Current accounting policy**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

**Comparative period policy**

Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in Other trade payables and accrued expenses.

There is no quantitative effect from the change in accounting policy as the consolidated entity has no net draw-downs on its borrowings during the period.

**(r) Employee benefits**

**Defined contribution plans**

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

**Long-term service benefits**

The consolidated entity's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating the terms of the consolidated entity's obligations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(r) Employee benefits (continued)**

**Share based payment transactions**

The fair value of shares granted under the employee share loan plan are recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and is measured using a binomial option-pricing model, taking into account the terms and conditions upon which the shares were granted.

Non-executive directors are required to apply A$10,000 of their director's fees each year to purchase the Company securities, in order to strengthen alignment with shareholder interests. The shares are purchased on the Australian Stock Exchange at the market value prevailing on the date of purchase. The provision of shares is not subject to performance conditions.

The fair value of shares granted to non-executive directors is recognised as an expense.

*Employee loans*

The employee share loan plan allows eligible persons of the consolidated entity and approved contractors to acquire shares of the Company. Eligible persons include permanent full-time or part-time employees, eligible contractors, or an agent of the Company or a related body corporate. No up-front payment is required for the shares as the Company offers all eligible persons an interest free, limited-recourse loan. Any dividends received on the allocated shares are applied to repay the loan balance.

Fixed regular loan repayments are also made to repay the loan balance. The shares are purchased on the Australian Stock Exchange at the market value prevailing on the date of purchase. The outstanding loan balance will be recognised as a receivable at amortised cost less impairment losses (see accounting policy (n)).

**Wages, salaries, annual leave, sick leave and non-monetary benefits**

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

Non-accumulating non-monetary benefits, such as housing, cars and subsidised services, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(r) Employee benefits (continued)**

**Director and Executive Option Plan**

The Company established an Option Plan for the Board of Directors and key employees of the Company as a retention strategy at the time of the Initial Public Offering. All options have been exercised prior to their expiry date (4 July 2006) or have expired on the date the holder ceased to be a director or executive.

There were no voting rights attached to unissued ordinary shares. Voting rights are attached to unissued ordinary shares when the options were exercised.

**(s) Provisions**

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**Rehabilitation and dismantling**

Provisions are made for the estimated cost of rehabilitation relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated. Provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs per hectare to rehabilitate such areas, discounted to their present value based on expected future cashflows. The estimated cost of rehabilitation includes the current cost of recontouring, topsoiling and revegetation employing legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.

Significant uncertainty exists as to the amount of rehabilitation obligations which will be incurred due to the impact of changes in environmental legislation.

Assumptions have been made as to the remaining life of existing sites based on studies conducted by independent technical advisors and on the basis of current environmental legislation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (s) Provisions (continued)

**Rehabilitation and dismantling (continued)**

*Infrastructure assets and dismantling*

The present value of rehabilitation and dismantling obligations is recognised at commencement of the mining project and/or construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a non-current liability with a corresponding asset. At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates, and timing or amount of the costs to be incurred. As the assets are not revalued, any changes in the liability are added or deducted from the related asset, other than the unwinding of the discount which is recognised as a finance cost in the income statement as it occurs.

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written-down to nil and the excess is recognised immediately in the income statement. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying amount is considered. Where there is an indication that the new carrying amount is not fully recoverable, an impairment test is performed with the write-down recognised in the income statement in the period in which it occurs.

*Non-infrastructure areas*

Rehabilitation obligations relating to non-infrastructure areas are discounted to their present value based on expected future cashflows. At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates, timing or amount of the costs to be incurred and areas to be rehabilitated. Any changes in the liability are charged to the income statement as rehabilitation expense, other than the unwinding of the discount which is recognised as a finance cost.

#### (t) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the consolidated entity from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(u) Trade and other payables**

**Current accounting policy**

Trade and other payables are stated at amortised cost. Trade payables are non-interest bearing and are normally settled on 30-day terms.

**Comparative period policy**

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

**(v) Revenue**

**Goods sold**

Revenue from the sale of coal is recognised (net of penalties, returns, discounts, allowances and hedging gains/losses) in the income statement when the significant risks and rewards of ownership have been transferred to the customer. No revenue is recognised if there are:

(i) significant uncertainties regarding recovery of the consideration due;

(ii) the costs incurred or to be incurred cannot be measured reliably;

(iii) there is a risk of return of goods; or

(iv) there is continuing management involvement with the goods.

**(w) Expenses**

**Operating lease payments**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(w) Expenses**

**Net financing costs**

**Current accounting policy**

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, amortisation of ancillary costs incurred in connection with arrangement of borrowings, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy (f)).

Borrowing costs are expensed as incurred, unless costs relate to a qualifying asset, and included in net financing costs. Borrowing costs relating to a qualifying asset, being an asset that necessarily takes a substantial period to prepare for its intended use, are capitalised as part of the cost of the asset.

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

**Comparative period policy**

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, finance charges in respect of finance leases and foreign exchange differences net of the effect of hedges of borrowing.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

Where interest rates are hedged or swapped, the borrowing costs are recognised net of any effect of the hedge or the swap.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised as 'deferred expenditure' and amortised over the life of the borrowings or over five years, whichever is lesser.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs associated with qualifying assets are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is the amount incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

Exploration and evaluation expenditure carried forward relating to areas of interest which have not reached a stage permitting reliable assessment of economic benefits are not qualifying assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(x) Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

**Tax consolidation**

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Macarthur Coal Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the separate taxpayer within group approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(x) Income tax**

**Tax consolidation (continued)**

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses, as a result of revised assessments of the probability of recovery are recognised by the head entity only.

**Nature of tax funding arrangements and tax sharing agreements**

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

The head entity recognises the assumed current tax amounts as current tax liabilities (assets), adding to its own current amounts, since they are also due to or from the same taxation authority. The current tax liabilities (assets) are equivalent to the tax balances generated by external transactions entered into by the tax-consolidated group. Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

**(y) Segment reporting**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(z) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Tax Office ('ATO') is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**(aa) Derecognition of financial assets and liabilities**

**Current accounting policy**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(i) the rights to receive cash flows from the asset have expired;

(ii) the consolidated entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or

(iii) the consolidated entity has transferred its rights to receive cash flows from the asset and either:

(a) has transferred substantially all the risks and rewards of the asset; or

(b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(aa) Derecognition of financial assets and liabilities (continued)**

**Comparative period policy — financial instruments impairment and derecognition**

The carrying amounts of non-current financial assets valued on the cost basis were reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current financial asset exceeded its recoverable amount (ie was not considered probable of recovery), the financial asset was written down to the lower amount. The write-down was expensed in the reporting period in which it occurred.

Where a group of assets working together supported the generation of cash inflows, recoverable amount was assessed in relation to that group of assets.

In assessing recoverable amounts of non-current financial assets, the relevant cash flows were discounted to their present value.

Impairment losses were reversed through the profit and loss but only to the extent of original cost.

An asset was derecognised when the contractual right to receive or exchange cash no longer existed. A liability was derecognised when the contractual obligation to deliver or exchange cash no longer existed.

**(ab) Accounting estimates and judgements**

Management discussed with the Audit and Risk Management Committee the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Key sources of estimation uncertainty**

Note 25 contains detailed analysis of the foreign exchange exposure of the consolidated entity and risks in relation to foreign exchange movements.

**Rehabilitation and dismantling provisions**

As set out in accounting policy (s) and Note 21, certain assumptions are required to be made in determining the amount the consolidated entity is expected to incur to settle its obligations in relation to rehabilitation of the mine sites and dismantling of infrastructure. Key assumptions include the amount and timing of future cash flow estimates and discount rates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(ab) Accounting estimates and judgements (continued)**

**Recoverability of non-current assets**

As set out in accounting policy (n), certain assumptions are required to be made in order to assess the recoverability of non-current assets. Key assumptions include the future coal price, future cash flows, an estimated discount rate and estimates of coal reserves. Estimates of coal reserves in themselves are dependant on various assumptions, in addition to those described above, including operating cost assumptions. Changes in these estimates could materially impact on coal reserves, and could therefore affect estimates of future cash flows used in the assessment of recoverable amount, estimates of the life of mine and depreciation.

**Contingent liabilities — litigation**

Certain claims have been made on the consolidated entity by a mining contractor. Judgements about the validity of the claims have been made by the directors. Further details are included in Note 28.

**2. SEGMENT REPORTING**

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure.

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 comprise mainly income-earning assets and revenue, interest-bearing loans, 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.

All segments are continuing operations.

**Business segments**

The consolidated entity comprises the following main business segments:

| | |
|---|---|
| Operating coal mines: | Coppabella and Moorvale mines |
| Exploration and evaluation: | Various tenements in the exploration and evaluation phase |
| Other: | Corporate and other business development activities |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**2. SEGMENT REPORTING (continued)**

**Geographical segments**

The consolidated entity operates predominately in Australia. All segment assets from ordinary activities relate to operations in Australia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of assets.

| | **Operating coal mines** | **Exploration and evaluation** | **Other** | **Eliminations** | **Consolidated** |
|---|---|---|---|---|---|
| | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| **Business segments** | | | | | |
| **30 June 2006** | | | | | |
| External sales revenue | 534,755 | — | — | — | 534,755 |
| Inter-segment revenue | — | — | — | — | — |
| Total revenue | 534,755 | — | — | — | 534,755 |
| Segment result | 225,715 | (530) | (13,595) | — | 211,590 |
| Unallocated expenses | | | | | — |
| Results from operating activities | | | | | 211,590 |
| Net financing income | | | | | 2,455 |
| Income tax expense | | | | | (64,456) |
| **Profit for the period** | | | | | 149,589 |
| Segment assets | 455,947 | 167,830 | 272,365 | (304,026) | 592,116 |
| Segment liabilities | 249,995 | 157,113 | 97,861 | (304,026) | 200,943 |
| Cash flows from operating activities | 247,132 | — | (45,641) | — | 201,491 |
| Cash flows from investing activities | 44,564 | (6,729) | (744) | — | 37,091 |
| Cash flows from financing activities | (25,135) | (1,472) | (61,510) | — | (88,117) |
| Capital expenditure | 7,277 | 54,419 | 755 | — | 62,451 |
| Impairment losses | 91 | — | — | — | 91 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 2. SEGMENT REPORTING (continued)

| | Operating coal mines | Exploration and evaluation | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| **Business segments** | | | | | |
| **30 June 2005** | | | | | |
| External sales revenue | 370,157 | — | — | — | 370,157 |
| Inter-segment revenue | — | — | — | — | — |
| Total revenue | 370,157 | — | — | — | 370,157 |
| Segment result | 93,933 | (2,859) | 3,599 | — | 94,673 |
| Unallocated expenses | | | | | — |
| Results from operating activities | | | | | 94,673 |
| Net financing costs | | | | | (5,033) |
| Income tax expense | | | | | (25,493) |
| **Profit for the period** | | | | | 64,147 |
| Segment assets | 376,803 | 46,653 | 173,410 | (156,204) | 440,662 |
| Segment liabilities | 254,160 | 49,796 | 57,605 | (156,987) | 204,574 |
| Cash flows from operating activities | 110,736 | — | (2,752) | — | 107,984 |
| Cash flows from investing activities | (52,845) | (3,640) | (85) | — | (56,570) |
| Cash flows from financing activities | (25,771) | (1,306) | (17,974) | — | (45,051) |
| Capital expenditure | 5,445 | 3,303 | 85 | — | 8,833 |
| Impairment losses | 1,471 | — | — | — | 1,471 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**2. SEGMENT REPORTING (continued)**

| | Asia | Europe | Americas | Other regions | Consolidated |
|---|---|---|---|---|---|
| | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| **Geographical segments** | | | | | |
| **30 June 2006** | | | | | |
| Revenue from external customers | 260,288 | 190,805 | 62,403 | 21,259 | 534,755 |
| Segment assets | — | — | — | 592,116 | 592,116 |
| Capital expenditure | — | — | — | 62,451 | 62,451 |
| **30 June 2005** | | | | | |
| Revenue from external customers | 159,324 | 152,490 | 40,912 | 17,431 | 370,157 |
| Segment assets | — | — | — | 440,662 | 440,662 |
| Capital expenditure | — | — | — | 8,833 | 8,833 |

**3. OTHER INCOME**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Management fee — related parties | 296 | 158 | 3,358 | 1,994 |
| Dividends — related parties | — | — | 61,488 | 19,034 |
| Net foreign exchange gains | 1,953 | — | — | — |
| Sundry — other parties | 214 | 3 | 98 | 3 |
| | 2,463 | 161 | 64,944 | 21,031 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 4. OTHER EXPENSES

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Net foreign exchange losses | — | 1,782 | — | — |
| Exploration and evaluation expensed as incurred | 387 | 335 | — | — |
| Increase in rehabilitation provision | 527 | 634 | — | — |
| Depreciation | (242) | 542 | 61 | 25 |
| Impairment loss on receivables | 91 | 1,471 | — | — |
| Net loss on disposal of non-current assets | 130 | 23 | 23 | — |
| | 893 | 4,787 | 84 | 25 |

### 5. PERSONNEL EXPENSES

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Wages and salaries | 4,605 | 3,182 | 3,284 | 2,072 |
| Other associated personnel expenses | 567 | 438 | 634 | 438 |
| Contributions to defined contribution superannuation funds | 603 | 323 | 603 | 323 |
| Increase in liability for annual leave | 262 | 133 | 194 | 133 |
| Increase in liability for long-service leave | 163 | — | 163 | — |
| Equity-settled transactions | 308 | — | 308 | — |
| | 6,508 | 4,076 | 5,186 | 2,966 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 6. AUDITORS' REMUNERATION

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$ | A$ | A$ | A$ |
| **Audit services** | | | | |
| Auditors of the Company — KPMG | | | | |
| • Audit and review of financial reports [(A)] [(F)] | 176,750 | 132,000 | 176,750 | 132,000 |
| • Audit of joint venture operations [(C)] | 87,159 | 68,862 | — | — |
| | 263,909 | 200,862 | 176,750 | 132,000 |
| **Other services** | | | | |
| Auditors of the Company — KPMG | | | | |
| • Other assurance services [(A)] [(B)] | 63,290 | 62,413 | 63,290 | 62,413 |
| • Taxation services [(A)] | 54,605 | 66,520 | 54,605 | 66,520 |
| • Joint venture operations [(C)] | | | | |
| — Other services [(D)] | 16,969 | 32,734 | — | — |
| KPMG related practices | | | | |
| • Other [(E)] | 30,273 | 55,136 | 30,273 | 55,136 |
| | 165,137 | 216,803 | 148,168 | 184,069 |

(A) All auditors' remuneration is borne by the Company for the consolidated entity.

(B) Represents advice in relation to accounting and AIFRS.

(C) Represents the consolidated entity's share of remuneration paid for audit and other services incurred by joint ventures.

(D) Represents tax advice and assistance with financial modelling.

(E) Represents license and other fees paid to a related entity, of which KPMG holds a 50% interest, for purchase of tax compliance software by the consolidated entity.

(F) Includes audit relating to transition to AIFRS and restated comparative financial information.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 7. NET FINANCING COSTS

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Interest income | (7,644) | (2,385) | (8,694) | (10,518) |
| Financial income | (7,644) | (2,385) | (8,694) | (10,518) |
| Interest expense | 5,189 | 7,418 | 1,704 | 2,647 |
| Financial expenses | 5,189 | 7,418 | 1,704 | 2,647 |
| Net financing costs/(income) | (2,455) | 5,033 | (6,990) | (7,871) |

### 8. INCOME TAX EXPENSE

**(a) Recognised in the income statement**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current tax expense** | | | | |
| Current year | 55,851 | 20,385 | (219) | 785 |
| Adjustments for prior years | 27 | 157 | 27 | 157 |
| | 55,878 | 20,542 | (192) | 942 |
| **Deferred tax expense** | | | | |
| Origination and reversal of temporary differences | 8,578 | 4,951 | 137 | (25) |
| | 8,578 | 4,951 | 137 | (25) |
| Total income tax expense/(benefit) in income statement attributable to continuing operations | 64,456 | 25,493 | (55) | 917 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 8. INCOME TAX EXPENSE (continued)

#### (b) Numerical reconciliation between tax expense and pre-tax net profit

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Profit before tax | | | | |
| — continuing operations | 214,045 | 89,640 | 61,170 | 22,381 |
| Income tax using the domestic corporation tax rate of 30% (2005: 30%) | 64,213 | 26,892 | 18,351 | 6,714 |
| Increase in income tax expense due to: | | | | |
| • Non-deductible expenses | 2,310 | 175 | 13 | 17 |
| Decrease in income tax expense due to: | | | | |
| • Non-assessable revenues | (2,094) | (1,731) | (18,446) | (5,971) |
| | 64,429 | 25,336 | (82) | 760 |
| Under/(over) provided in prior years | 27 | 157 | 27 | 157 |
| Income tax expense/(benefit) on pre-tax net profit | 64,456 | 25,493 | (55) | 917 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**8. INCOME TAX EXPENSE (continued)**

**(c) Current tax liability/(asset)**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Movements during the year | | | | |
| Balance at the beginning of the year | 16,505 | (7,000) | 16,505 | (7,000) |
| Under/(over) provision in prior period | 27 | 157 | 27 | 70 |
| Income tax paid | (27,783) | (5,862) | (27,783) | (5,862) |
| Income tax received | — | 8,847 | — | 8,847 |
| Current year's income tax provision | 55,646 | 20,363 | (192) | 722 |
| Income tax expense related to wholly-owned subsidiaries in a tax-consolidated group | — | — | 55,838 | 19,728 |
| | 44,395 | 16,505 | 44,395 | 16,505 |

**(d) Deferred tax recognised directly in equity**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Relating to foreign currency derivative contracts | 305 | — | — | — |
| | 305 | — | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 9. DEFERRED TAX ASSETS AND LIABILITIES

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| **Consolidated** | | | | | | |
| Property, plant and equipment | — | — | 2,434 | 2,629 | 2,434 | 2,629 |
| Employee benefits | (198) | (71) | — | — | (198) | (71) |
| Inventories | (36) | — | — | 409 | (36) | 409 |
| Interest-bearing loans and borrowings | (3,215) | (3,517) | — | — | (3,215) | (3,517) |
| Provisions | (5,984) | (3,922) | — | — | (5,984) | (3,922) |
| Amounts payable for future user charges | (3,719) | (4,199) | — | — | (3,719) | (4,199) |
| Overburden in advance | — | — | 23,133 | 15,984 | 23,133 | 15,984 |
| Mining property | — | — | 19,091 | 20,913 | 19,091 | 20,913 |
| Exploration and evaluation | — | — | 17,354 | 6,978 | 17,354 | 6,978 |
| Other items | (7,466) | (377) | 941 | 455 | (6,525) | 78 |
| Tax value of loss carry-forwards recognised | — | (1,626) | — | — | — | (1,626) |
| Tax (assets)/liabilities | (20,618) | (13,712) | 62,953 | 47,368 | 42,335 | 33,656 |
| Set off of tax | — | — | — | — | — | — |
| Net tax (assets)/liabilities | (20,618) | (13,712) | 62,953 | 47,368 | 42,335 | 33,656 |
| **The Company** | | | | | | |
| Property, plant and equipment | — | — | 7 | 3 | 7 | 3 |
| Employee benefits | (178) | (71) | — | — | (178) | (71) |
| Provisions | (29) | — | — | — | (29) | — |
| Other items | (347) | (596) | — | — | (347) | (596) |
| Tax (assets)/liabilities | (554) | (667) | 7 | 3 | (547) | (664) |
| Set off of tax | — | — | — | — | — | — |
| Net tax (assets)/liabilities | (554) | (667) | 7 | 3 | (547) | (664) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 9. DEFERRED TAX ASSETS AND LIABILITIES (continued)

**Unrecognised deferred tax assets**

All deferred tax assets have been recognised within the Company or the consolidated entity.

| | Consolidated | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance 1 July 05 | Recognised in income | Recognised in equity/ transfers | Balance 30 June 06 | Balance 1 July 05 | Recognised in income | Recognised in equity/ transfers | Balance 30 June 06 |
| | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| **Movement in temporary differences during the year** | | | | | | | | |
| Property, plant and equipment | 2,629 | (195) | — | 2,434 | 3 | 4 | — | 7 |
| Inventories | 409 | (445) | — | (36) | — | — | — | — |
| Interest-bearing loans and borrowings | (3,517) | 302 | — | (3,215) | — | — | — | — |
| Employee benefits | (71) | (79) | (48) | (198) | (71) | (87) | (20) | (178) |
| Provisions | (3,922) | (2,062) | — | (5,984) | — | (29) | — | (29) |
| Amounts payable for future user charges | (4,199) | 480 | — | (3,719) | — | — | — | — |
| Overburden in advance | 15,984 | 7,149 | — | 23,133 | — | — | — | — |
| Mining property | 20,913 | (1,822) | — | 19,091 | — | — | — | — |
| Exploration and evaluation | 6,978 | 10,376 | — | 17,354 | — | — | — | — |
| Other items | 78 | (6,752) | 149 | (6,525) | (596) | 249 | — | (347) |
| Tax value of loss carry-forwards (recognised)/derecognised | (1,626) | 1,626 | — | — | — | — | — | — |
| | 33,656 | 8,578 | 101 | 42,335 | (664) | 137 | (20) | (547) |

| | Consolidated | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance 1 July 04 | Recognised in income | Recognised in equity/ transfers | Balance 30 June 05 | Balance 1 July 04 | Recognised in income | Recognised in equity/ transfers | Balance 30 June 05 |
| | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| Property, plant and equipment | 1,804 | 825 | — | 2,629 | 1 | 2 | — | 3 |
| Inventories | 314 | 95 | — | 409 | — | — | — | — |
| Interest-bearing loans and borrowings | (3,770) | 253 | — | (3,517) | — | — | — | — |
| Employee benefits | (34) | (37) | — | (71) | (34) | (37) | — | (71) |
| Provisions | (3,520) | (402) | — | (3,922) | — | — | — | — |
| Amounts payable for future user charges | (4,775) | 576 | — | (4,199) | — | — | — | — |
| Overburden in advance | 11,640 | 4,344 | — | 15,984 | — | — | — | — |
| Mining property | 24,084 | (3,171) | — | 20,913 | — | — | — | — |
| Exploration and evaluation | 6,234 | 744 | — | 6,978 | — | — | — | — |
| Other items | 67 | 186 | (175) | 78 | (772) | 10 | 166 | (596) |
| Tax value of loss carry-forwards (recognised)/derecognised | (3,164) | 1,538 | — | (1,626) | — | — | — | — |
| | 28,880 | 4,951 | (175) | 33,656 | (805) | (25) | 166 | (664) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 10. EARNINGS PER SHARE

**Basic earnings per share**

The calculation of basic earnings per share at 30 June 2006 was based on the profit attributable to ordinary shareholders of A$149,589,000 (2005: A$64,147,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2006 of 179,603,247 (2005: 162,350,704), calculated as follows:

| | Consolidated | |
|---|---|---|
| | **2006** | **2005** |
| | A$'000 | A$'000 |
| **Profit attributable to ordinary shareholders** | | |
| Profit attributable to ordinary shareholders | 149,589 | 64,147 |
| | **Number** | **Number** |
| **Weighted average number of ordinary shares** | | |
| Issued ordinary shares at 1 July | 172,824,327 | 154,724,477 |
| Effect of shares issued on exercise of options | 76,758 | 879,505 |
| Effect of shares issued conversion of convertible notes | 2,106,564 | 6,746,722 |
| Effect of shares issued in December 2005 | 4,104,894 | — |
| Effect of shares issued in May 2006 | 490,704 | — |
| Weighted average number of ordinary shares at 30 June | 179,603,247 | 162,350,704 |

**Diluted earnings per share**

The calculation of diluted earnings per share at 30 June 2006 was based on profit attributable to ordinary shareholders of A$149,589,000 (2005: A$64,147,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2006 of 179,703,275 (2005: 166,732,761), calculated as follows:

| | Consolidated | |
|---|---|---|
| | **2006** | **2005** |
| | A$'000 | A$'000 |
| **Profit attributable to ordinary shareholders (diluted)** | | |
| Profit attributable to ordinary shareholders | 149,589 | 64,147 |
| | **Number** | **Number** |
| **Weighted average number of ordinary shares (diluted)** | | |
| Weighted average number of ordinary shares at 1 July | 179,603,247 | 162,350,704 |
| Effect of share options on issue | 100,028 | 501,247 |
| Effect of convertible notes on issue | — | 3,880,810 |
| Weighted average number of ordinary shares (diluted) at 30 June | 179,703,275 | 166,732,761 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 11. CASH AND CASH EQUIVALENTS

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Cash at bank and in hand | 4,330 | 905 | 2,376 | 452 |
| Bank cash deposit account at call | 35,777 | 4,675 | 8,165 | 4,675 |
| Bank bills | 128,496 | 12,558 | 7,497 | 12,558 |
| Cash and cash equivalents in the statement of cash flows | 168,603 | 18,138 | 18,038 | 17,685 |

### 12. TRADE AND OTHER RECEIVABLES

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Trade receivables | 32,659 | 23,274 | — | — |
| Other receivables and prepayments | 10,334 | 7,409 | 328 | 301 |
| Tax related receivables | — | — | 70,560 | 7,831 |
| Receivables due from associates and related entities — unsecured | 9,669 | 1,875 | 458 | 277 |
| | 52,662 | 32,558 | 71,346 | 8,409 |
| **Non-current** | | | | |
| Security deposits | 118 | 85 | — | — |
| Other receivables and prepayments | 3,977 | 5,392 | — | — |
| Loans to employees — Employee Share Plan | 508 | 7 | 508 | 7 |
| Amounts receivable from controlled entities — unsecured | — | — | 184,791 | 126,747 |
| Receivables due from associates and related entities — unsecured | — | 7,532 | — | — |
| | 4,603 | 13,016 | 185,299 | 126,754 |

Current and non-current receivables due from associates and related entities — unsecured are shown net of impairment losses of A$91,000 (2005: A$Nil) and A$Nil (2005: A$1,471,000), respectively, recognised in the current year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 13. INVENTORIES

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Coal stocks, at cost | 15,412 | 24,075 | — | — |

Refer Note 19 for details of security over inventories.

### 14. OTHER FINANCIAL ASSETS

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Cash and deposits — not at call | 6,099 | 58,630 | — | — |
| Foreign currency derivative contracts | 2,711 | 19,643 | — | — |
| | 8,810 | 78,273 | — | — |
| **Non-current** | | | | |
| Investments in controlled entities — at cost | — | — | 73,343 | 56,385 |
| Foreign currency derivative contracts | — | 2,783 | — | — |
| | — | 2,783 | 73,343 | 56,385 |

### 15. OTHER ASSETS

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Deferred expenditure | — | 257 | — | 257 |
| Overburden in advance | 74,206 | 45,949 | — | — |
| | 74,206 | 46,206 | — | 257 |
| **Non-current** | | | | |
| Deferred expenditure | — | 2,239 | — | 1,452 |
| Less accumulated amortisation | — | (2,239) | — | (1,452) |
| | — | — | — | — |
| Overburden in advance | 2,904 | 7,330 | — | — |
| | 2,904 | 7,330 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 16. PROPERTY, PLANT AND EQUIPMENT

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Mining property and development (including mining rights and coal resources) | | | | |
| • At cost | 141,620 | 140,368 | — | — |
| • Less accumulated depreciation | (34,230) | (26,431) | — | — |
| | 107,390 | 113,937 | — | — |
| Freehold land | | | | |
| • At cost | 4,958 | 4,953 | — | — |
| Buildings and infrastructure | | | | |
| • At cost | 72,856 | 67,965 | — | — |
| • Less accumulated depreciation | (21,867) | (14,855) | — | — |
| | 50,989 | 53,110 | — | — |
| Plant and equipment | | | | |
| • At cost | 3,949 | 2,159 | 932 | 218 |
| • Less accumulated depreciation | (912) | (723) | (134) | (80) |
| | 3,037 | 1,436 | 798 | 138 |
| Capital works in progress | | | | |
| • At cost | 3,733 | 4,457 | — | — |
| | 170,107 | 177,893 | 798 | 138 |

Refer to Note 19 for details of security over property, plant and equipment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**16. PROPERTY, PLANT AND EQUIPMENT (continued)**

**Reconciliations**

Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| • Mining property and development | | | | |
| Carrying amount at beginning of year | 113,937 | 124,379 | — | — |
| • Additions, including acquisitions through acquisition of interest in joint venture | 1,251 | 58 | — | — |
| • Disposals | — | (604) | — | — |
| • Depreciation | (7,798) | (9,896) | — | — |
| Carrying amount at end of year | 107,390 | 113,937 | — | — |
| • Freehold land | | | | |
| Carrying amount at beginning of year | 4,953 | 4,923 | — | — |
| • Additions | 5 | 30 | — | — |
| Carrying amount at end of year | 4,958 | 4,953 | — | — |
| • Buildings and infrastructure | | | | |
| Carrying amount at beginning of year | 53,110 | 59,071 | — | — |
| • Additions, including acquisitions through acquisition of interest in joint venture | 1,540 | 71 | — | — |
| • Transfer from capital works in progress | 3,894 | 507 | — | — |
| • Disposals | (377) | (62) | — | — |
| • Depreciation | (7,178) | (6,477) | — | — |
| Carrying amount at end of year | 50,989 | 53,110 | — | — |
| • Plant and equipment | | | | |
| Carrying amount at beginning of year | 1,436 | 1,106 | 138 | 78 |
| • Additions, including acquisitions through acquisition of interest in joint venture | 485 | 295 | 744 | 85 |
| • Transfer from capital works in progress | 1,581 | 341 | — | — |
| • Disposals | (132) | (74) | (23) | — |
| • Depreciation | (333) | (232) | (61) | (25) |
| Carrying amount at end of year | 3,037 | 1,436 | 798 | 138 |
| • Capital works in progress | | | | |
| Carrying amount at beginning of year | 4,457 | 228 | — | — |
| • Additions, including acquisitions through acquisition of interest in joint venture | 4,751 | 5,077 | — | — |
| • Transfers to property, plant and equipment | (5,475) | (848) | — | — |
| Carrying amount at end of year | 3,733 | 4,457 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**16. PROPERTY, PLANT AND EQUIPMENT (continued)**

**Reconciliations (continued)**

The following depreciation expense was recognised as an expense in the income statement:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Mining property and development | 8,759 | 9,387 | — | — |
| Buildings and infrastructure | 6,919 | 6,115 | — | — |
| Plant and equipment | 333 | 232 | 61 | 25 |
| | 16,011 | 15,734 | 61 | 25 |

**17. EXPLORATION AND EVALUATION ASSETS**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Costs carried forward in respect of areas of interest in: | | | | |
| • Exploration and/or evaluation — intangible | 94,809 | 40,390 | — | — |
| | 94,809 | 40,390 | — | — |
| **Cost** | | | | |
| Balance at beginning of year | 40,390 | 37,087 | — | — |
| Acquisitions of subsidiaries and joint venture interests | 48,653 | — | — | — |
| Exploration and evaluation capitalised | 5,766 | 3,303 | — | — |
| Balance at end of year | 94,809 | 40,390 | — | — |

The ultimate recoupment of costs carried forward as exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 18. TRADE AND OTHER PAYABLES

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Trade payables | 1,633 | 6,521 | 228 | 285 |
| Other payables and accrued expenses | 66,905 | 54,825 | 909 | 891 |
| | 68,538 | 61,346 | 1,137 | 1,176 |
| **Non-current** | | | | |
| Amounts payable to controlled entities — unsecured | — | — | 52,499 | — |

### 19. INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings. For more information about the consolidated entity's exposure to interest rate and foreign currency risk, see Note 25.

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current liabilities** | | | | |
| Secured bank loans | — | 19,102 | — | — |
| Redeemable convertible notes | — | 5,627 | — | 5,627 |
| Deferred liability for acquisition of mining interest — unsecured | 1,931 | 1,933 | — | — |
| | 1,931 | 26,662 | — | 5,627 |
| **Non-current liabilities** | | | | |
| Deferred liability for acquisition of mining interest — unsecured | 8,785 | 9,790 | — | — |
| | 8,785 | 9,790 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 19. INTEREST-BEARING LOANS AND BORROWINGS (continued)

**Redeemable convertible notes**

In December 2002 the Company issued 20,689,660 convertible notes at an issue price of A$1.45 each with interest at 10% per annum payable half-yearly. The notes were convertible, at the option of the holder, on any interest payment date up to 11 December 2005 to ordinary shares on the basis of one share per note. The Company had the option, on receiving the conversion request from the holder, to either issue ordinary shares or to pay the cash equivalent. Any notes not converted by the maturity date were redeemed by the Company at the issue price on the maturity date. During the year 3,833,946 (2005: 16,719,850) notes were converted at A$1.45 (refer Note 24).

**Deferred liability for acquisition of mining interest — unsecured**

In December 2003 the consolidated entity purchased an additional 23.3% interest in the Coppabella Project. As part of the acquisition, the consolidated entity entered into an arrangement to progressively purchase the 23.3% interest in the exploration tenements each six months, over a 10 year period. In accordance with Australian Accounting Standards the deferred liability has been reflected at its present value in the financial statements, discounted at 10.2% (2005: 10%) based on 6% interest plus risk adjusted margin.

| | **Consolidated** | | **The Company** | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Financing facilities** | | | | |
| Bank loans — Corporate Facility | | | | |
| • Amortising cash advance facility (US$24,000,000) | 32,288 | — | — | — |
| • Revolving cash advance facility (US$20,000,000) | 26,907 | — | — | — |
| Bank loans — Project Finance Facility | | | | |
| • Cash advance term loan (US$14,552,000) | — | 19,102 | — | — |
| • Revolving cash advance working capital loan | — | 17,226 | — | — |
| Bank Guarantee Facility | 60,000 | 33,363 | — | — |
| | 119,195 | 69,691 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 19. INTEREST-BEARING LOANS AND BORROWINGS (continued)

**Deferred liability for acquisition of mining interest — unsecured (continued)**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Facilities utilised at reporting date** | | | | |
| Bank loans — Corporate Facility | | | | |
| • Amortising cash advance facility | — | — | — | — |
| • Revolving cash advance facility | — | — | — | — |
| Bank loans — Project Finance Facility | | | | |
| • Cash advance term loan (US$14,552,000) | — | 19,102 | — | — |
| • Revolving cash advance working capital loan | — | — | — | — |
| Bank Guarantee Facility | 57,787 | 32,324 | — | — |
| | 57,787 | 51,426 | — | — |
| **Facilities not utilised at reporting date** | | | | |
| Bank loans — Corporate Facility | | | | |
| • Amortising cash advance facility (US$24,000,000) | 32,288 | — | — | — |
| • Revolving cash advance facility (US$20,000,000) | 26,907 | — | — | — |
| Bank loans — Project Finance Facility | | | | |
| • Cash advance term loan (US$Nil) | — | — | — | — |
| • Revolving cash advance working capital loan | — | 17,226 | — | — |
| Bank Guarantee Facility | 2,213 | 1,039 | — | — |
| | 61,408 | 18,265 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**19. INTEREST-BEARING LOANS AND BORROWINGS (continued)**

**Corporate Facility**

**Bank loans**

During the year ended 30 June 2006 the consolidated entity replaced its Project Finance Facility with a Corporate Facility.

The purpose of the Corporate Facility was to replace the project financing and provide additional funds for general corporate purposes within the consolidated entity. The facility is held by a controlled entity, Coppabella Coal Pty Ltd. Bank loans provided as part of the Corporate Facility are:

*(1) Cash advance facility*

(a) Amortising cash advance facility

The facility limit is denominated in United States dollars as US$30,000,000 and is to be amortised on a straight line basis to 30 June 2010. A$Nil (US$Nil) has been drawn down at 30 June 2006. The facility can be drawn in Australian dollars or United States dollars. The amortised facility limit at 30 June 2006 is US$24,000,000. A commitment fee of 0.45% per annum is payable on the unused portion of the amortising cash advance facility.

The interest rate applicable to the cash advance facility comprises LIBOR plus a minimum margin of 0.95% per annum. The effective interest rate was 6.46% per annum at 30 June 2006.

(b) Revolving cash advance facility

The revolving cash advance facility loan limit is denominated in United States dollars as US$20,000,000. A$Nil (US$Nil) has been drawn down at 30 June 2006. The facility is in place until 30 June 2010. The facility can be drawn down in Australian dollars or United States dollars. A commitment fee of 0.45% per annum is payable on the unused portion of the revolving cash advance facility.

The interest rate applicable to the cash advance facility comprises LIBOR plus a minimum margin of 0.95% per annum. The effective interest rate was 6.46% per annum at 30 June 2006.

*(2) Bank guarantee facility*

The bank guarantee facility is denominated in Australian dollars as a A$60,000,000 limit amortising to A$Nil at maturity 30 June 2010. The facility can be drawn in Australian dollars, incorporating a sub-limit of the equivalent of A$4,000,000 which can be drawn in United States dollars. Bank guarantee fees are payable at 0.55% per annum and a fee of 0.22% per annum applies to the unused portion of the bank guarantee facility.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**19. INTEREST-BEARING LOANS AND BORROWINGS (continued)**

**Corporate Facility (continued)**

**Security**

The Corporate Facility is secured by a guarantee provided by Macarthur Coal Limited and charges over the consolidated entity's interest in the Coppabella and Moorvale Joint Venture including all of the assets and undertakings of the controlled entity, Coppabella Coal Pty Ltd and charges over the assets and undertakings of the controlled entity, Macarthur Coal Management Pty Ltd and the Company's shares in Coppabella Coal Pty Ltd and Macarthur Coal Management Pty Ltd and intercompany loans to the controlled entities.

**Project Finance Facility**

A non-recourse Project Finance Facility applicable to the Coppabella and Moorvale mines, with the debt being held by the controlled entities, was in place until its cancellation on 17 October 2005. Bank loans provided as part of the Project Finance Facility were:

*(1) Cash advance term loan*

The loan was denominated in United States dollars. An amount of A$19,102,000 (US$14,552,000) was included in current liabilities at 30 June 2005, being the amount payable within one year due to the loan being fully repaid in October 2005.

The interest rate applicable to the cash advance term loan comprised LIBOR plus a margin of 1.55% per annum. The effective interest rate was 5.05% per annum at 30 June 2005.

*(2) Revolving cash advance working capital loan*

The revolving cash advance working capital loans were denominated in Australian dollars.

The interest rate comprised a base rate based on BBSY plus a margin of 1.55% per annum. The effective interest rate at 30 June 2005 was 7.24%. Additionally, a commitment fee of 0.70% per annum was payable on the unused portion of the revolving cash advance working capital loan facility.

*(3) Bank guarantee facility*

The bank guarantee facility was denominated in Australian and United States dollars of up to A$33,000,000 equivalent. Bank guarantee fees were payable at 0.775% per annum and a fee of 0.35% per annum applied to the unused portion of the bank guarantee facility.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 19. INTEREST-BEARING LOANS AND BORROWINGS (continued)

**Security**

The Project Finance Facility was secured by changes over the consolidated entity's interest in the Coppabella and Moorvale Joint Venture including all of the assets and undertakings of the controlled entity, Coppabella Coal Pty Ltd, and the Company's shares in Coppabella Coal Pty Ltd and intercompany loans to the controlled entity.

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Assets pledged under security arrangements** | | | | |
| The carrying amount of the pledged non-current assets are as follows: | | | | |
| Mining property and development | 107,390 | 110,661 | — | — |
| Land | 3,730 | 3,730 | — | — |
| Buildings and infrastructure | 50,989 | 53,110 | — | — |
| Plant and equipment | 2,203 | 1,263 | — | — |
| Capital works in progress | 3,733 | 4,457 | — | — |
| Receivables | 6,039 | 7,555 | — | — |
| Other financial assets | — | 2,783 | — | — |
| Other | 2,904 | 12,723 | — | — |
| Shares in controlled entities | — | — | 56,385 | 56,385 |
| Amounts receivable from controlled entities | — | — | 42,400 | 79,201 |
| | 176,988 | 196,282 | 98,785 | 135,586 |
| **Convertible notes** | | | | |
| Convertible notes on issue at 1 July | 5,627 | 29,871 | 5,627 | 29,871 |
| 3,833,946 conversions during the period (2005: 16,719,850) | (5,559) | (24,244) | (5,559) | (24,244) |
| Debt repaid to non-converting note holders | (68) | — | (68) | — |
| Carrying amount of liability at 30 June | — | 5,627 | — | 5,627 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 20. EMPLOYEE BENEFITS

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current liabilities** | | | | |
| Liability for annual leave | 460 | 198 | 392 | 198 |
| Liability for long-service leave | 46 | — | 46 | — |
| | 506 | 198 | 438 | 198 |
| **Non-current liabilities** | | | | |
| Liability for long-service leave | 156 | 39 | 156 | 39 |

**Defined contribution superannuation funds**

The consolidated entity makes contributions to several defined contribution superannuation funds. The amount recognised as an expense was A$603,000 for the financial year ended 30 June 2006 (2005: A$323,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**20. EMPLOYEE BENEFITS (continued)**

**Share based payments**

**Directors' Option Plan**

The Company has a directors' option plan for the Board of Directors.

There are no voting rights attached to unissued ordinary shares. Voting rights will be attached to unissued ordinary shares when the options have been exercised.

All options expire on the earlier of their expiry date or the date the holder ceases to be a director of the Company or the date the holder is dismissed for misconduct or for reasons involving fraud.

The number and weighted average exercise prices of share options is as follows:

| | Weighted average exercise price 2006 | Number of options 2006 | Weighted average exercise price 2005 | Number of options 2005 |
|---|---|---|---|---|
| Outstanding at the beginning of the period | — | — | A$1.32 | 800,000 |
| Exercised during the period | — | — | A$1.32 | (800,000) |
| Outstanding at the end of the period | — | — | — | — |
| Exercisable at the end of the period | | — | | — |

No options are outstanding at 30 June 2006 and no options were exercised during the year.

During the financial year, no share options were exercised (2005: 800,000, fully paid). The weighted average share price at the date of exercise was A$Nil (2005: A$4.26).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**20. EMPLOYEE BENEFITS (continued)**

**Share based payments (continued)**

**Executive Option Plan**

The Company has an executive option plan for key employees of the Company and Macarthur Coal (C&M Management) Pty Ltd, an associated entity.

There are no voting rights attached to unissued ordinary shares. Voting rights will be attached to unissued ordinary shares when the options have been exercised.

All options expire on the earlier of their expiry date or the date the holder ceases to be an executive or the date the holder is dismissed for misconduct or for reasons involving fraud.

The number and weighted average exercise prices of share options is as follows:

| | Weighted average exercise price 2006 | Number of options 2006 | Weighted average exercise price 2005 | Number of options 2005 |
|---|---|---|---|---|
| Outstanding at the beginning of the period | A$1.38 | 110,000 | A$1.35 | 690,000 |
| Exercised during the period | A$1.38 | (110,000) | A$1.34 | (580,000) |
| Outstanding at the end of the period | — | — | A$1.38 | 110,000 |
| Exercisable at the end of the period | | — | | 110,000 |

No options are outstanding at 30 June 2006.

During the financial year, 110,000 share options were exercised (2005: 580,000), fully paid. The weighted average share price at the date of exercise was A$6.12 (2005: A$3.81).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**20. EMPLOYEE BENEFITS (continued)**

**Share based payments (continued)**

**Employee Share Plan**

The Company established an Employee Share Plan (ESP) which was used to provide an opportunity for employees to participate in the Initial Public Offering. On 2 July 2001, 180,000 shares were issued to 60 eligible employees at an issue price of A$1.00 per share with a limit of 3,000 shares per employee.

All shares issued under the ESP rank equally with all other shares for time being on issue.

The Company provided interest free loans to employees to enable them to acquire shares under ESP to 100% of the total acquisition price for the shares. Any dividends declared on the shares issued under ESP will, to the extent determined by the directors, be first used to offset any loans outstanding on the shares. Employees have also provided irrevocable authority to the Company to deduct 1% of their gross salary each month in repayment of the loan.

The loan will be repayable:

a) if default is made by the employee on the repayment of the loan; or

b) the employee's employment with the Company, its subsidiary or associate or the relevant contractor is terminated for any reason; or

c) the employee becomes insolvent or commits an act of bankruptcy.

The Company holds security over the shares the subject of a loan until the loan is repaid.

The market price of shares issued under the ESP as at 30 June 2006 was A$4.48 (2005: A$7.45).

There were no other shares eligible for issuance under the ESP at 30 June 2006.

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | A$ | A$ | A$ | A$ |
| The amount recognised in the financial statements of the consolidated entity and the Company in relation to employee shares during the year were: | | | | |
| Issued ordinary share capital (180,000 shares at A$1 each) | — | 180,000 | — | 180,000 |
| Employee loans payable at 30 June 2005 | — | 6,744 | — | 6,744 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**20. EMPLOYEE BENEFITS (continued)**

**Share based payments (continued)**

**Employee Share Loan Plan**

The Company established an Employee Share Loan Plan (ESLP) which was used to provide an opportunity for eligible persons of the consolidated entity and approved contractors to acquire shares of the Company. On 15 December 2005, 122,935 shares were issued to 86 eligible employees at an issue price of A$5.43 per share with a value limit of between A$6,000 to A$20,000 per employee.

All shares issued under the ESLP rank equally with all other shares for time being on issue.

The Company provided interest free loans to all eligible persons to enable them to acquire shares under ESLP to 100% of the total acquisition price for the shares. Any dividends declared on the shares issued under ESLP will be used to offset any loans outstanding on the shares. Employees and contractors have also provided irrevocable authority to the Company to deduct 1% of their gross salary each month in repayment of the loan.

The loan will be repayable:

a) if default is made by the employee on the repayment of the loan; or

b) the employee's employment with the Company, its subsidiary or associate or the relevant contractor is terminated for any reason; or

c) the employee becomes insolvent or commits an act of bankruptcy.

The Company holds security over the shares the subject of a loan until the loan is repaid.

The market price of shares issued under the ESLP as at 30 June 2006 was A$4.48.

There were no other shares eligible for issuance under the ESLP at 30 June 2006.

The number and weighted average exercise prices of shares is as follows:

| | Weighted average exercise price 2006 | Number of options 2006 | Weighted average exercise price 2005 | Number of options 2005 |
|---|---|---|---|---|
| Outstanding at the beginning of the period | — | — | — | — |
| Granted during the period | A$5.43 | 122,935 | — | — |
| Sold during the period | A$4.91 | (16,930) | — | — |
| Outstanding at the end of the period | — | 106,005 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**21. PROVISIONS**

| | Rehabilitation and dismantling A$'000 | Onerous contracts A$'000 | Other A$'000 | Total A$'000 |
|---|---|---|---|---|
| **Consolidated** | | | | |
| Balance at 1 July 2005 | 13,929 | — | — | 13,929 |
| Provisions made during the year | 3,854 | 1,881 | 177 | 5,912 |
| Provisions used during the year | (622) | — | — | (622) |
| Unwind of discount | 725 | — | — | 725 |
| Balance at 30 June 2006 | 17,886 | 1,881 | 177 | 19,944 |
| Current | 1,384 | 1,881 | 79 | 3,344 |
| Non-current | 16,502 | — | 98 | 16,600 |
| | 17,886 | 1,881 | 177 | 19,944 |
| **The Company** | | | | |
| Balance at 1 July 2005 | — | — | — | — |
| Provisions made during the year | — | — | 98 | 98 |
| Balance at 30 June 2006 | — | — | 98 | 98 |
| Current | — | — | — | — |
| Non-current | — | — | 98 | 98 |
| | — | — | 98 | 98 |

During the financial year ended 30 June 2006, A$622,000 was recognised as an expense in the income statement in respect of rehabilitation incurred (2005: A$928,000).

**Rehabilitation and dismantling**

In accordance with State Government legislative requirements, a provision has been recognised for mine rehabilitation works throughout the life of the mines in relation to the consolidated entity's coal mining operations. A provision for dismantling of infrastructure assets on cessation of operations at the mines has also been recognised in relation to the consolidated entity's coal mining operations. The basis for accounting is set out in Note 1(s).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**21. PROVISIONS (continued)**

**Onerous contracts**

Macarthur Coal (C&M Management) Pty Ltd, the manager for the Coppabella and Moorvale Joint Venture, entered into a contract with Queensland Rail for the transport of 625,000 tonnes of coal to Abbot Point for the period 1 March 2006 to 31 December 2006. The port contract at Abbot Point expired on 28 February 2006 and therefore there is no corresponding port contract during the period 1 March 2006 to 31 December 2006. The obligation under the Queensland Rail contract for the remaining period 1 July 2006 to 31 December 2006 has been fully provided for at year end.

**22. OTHER FINANCIAL LIABILITIES**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Mining exploration and evaluation costs *(refer Note 27(d))* | 131 | 1,471 | — | — |
| Amounts payable for future user charges *(refer Note 27(e))* | 1,694 | 1,599 | — | — |
| Foreign currency derivative contracts | 1,447 | 1,737 | — | — |
| | 3,272 | 4,807 | — | — |
| **Non-current** | | | | |
| Mining exploration and evaluation costs *(refer Note 27(d))* | — | 131 | — | — |
| Amounts payable for future user charges *(refer Note 27(e))* | 10,704 | 12,398 | — | — |
| Foreign currency derivative contracts | 377 | 169 | — | — |
| | 11,081 | 12,698 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 23. OTHER LIABILITIES

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Deferred unrealised gains on foreign currency derivative contracts | — | 17,907 | — | — |
| Deferred unrealised gains on US dollar bank loans | — | 2,314 | — | — |
| | — | 20,221 | — | — |
| **Non-current** | | | | |
| Deferred unrealised gains on foreign currency derivative contracts | — | 2,614 | — | — |
| Deferred unrealised gains on US dollar bank loans | — | 2,109 | — | — |
| | — | 4,723 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 24. CAPITAL AND RESERVES

**Reconciliation of movement in capital and reserves attributable to equity holders of the parent**

| | Note | Share capital A$'000 | Hedging reserve A$'000 | Retained earnings A$'000 | Total equity A$'000 |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| Balance at 1 July 2004 | | 156,530 | — | 7,129 | 163,659 |
| Total recognised income and expense | | — | — | 64,147 | 64,147 |
| Adjustment to prior period transaction costs | | (43) | — | — | (43) |
| Shares issued on exercise of options | | 1,832 | — | — | 1,832 |
| Shares issued on conversion of convertible notes | | 24,244 | — | — | 24,244 |
| Dividends to shareholders | | — | — | (17,751) | (17,751) |
| Balance at 30 June 2005 | | 182,563 | — | 53,525 | 236,088 |
| Balance at 1 July 2005 | | 182,563 | — | 53,525 | 236,088 |
| Effect of change in accounting policy | 35 | — | 15,504 | — | 15,504 |
| Balance at 1 July 2005 — restated | | 182,563 | 15,504 | 53,525 | 251,592 |
| Total recognised income and expense | | — | (12,684) | 149,589 | 136,905 |
| Shares issued on acquisition of joint venture interests | | 48,078 | — | — | 48,078 |
| Shares issued on exercise of options | | 152 | — | — | 152 |
| Shares issued on conversion of convertible notes | | 5,559 | — | — | 5,559 |
| Equity settled transactions | | 9,991 | — | 308 | 10,299 |
| Dividends to shareholders | | — | — | (61,412) | (61,412) |
| Balance at 30 June 2006 | | 246,343 | 2,820 | 142,010 | 391,173 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 24. CAPITAL AND RESERVES (continued)

**Reconciliation of movement in capital and reserves attributable to equity holders of the parent (continued)**

| | Share capital A$'000 | Hedging reserve A$'000 | Retained earnings A$'000 | Total equity A$'000 |
|---|---|---|---|---|
| **The Company** | | | | |
| Balance at 1 July 2004 | 156,530 | — | 471 | 157,001 |
| Total recognised income and expense | — | — | 21,464 | 21,464 |
| Adjustment to prior period transaction costs | (43) | — | — | (43) |
| Shares issued on exercise of options | 1,832 | — | — | 1,832 |
| Shares issued on conversion of convertible notes | 24,244 | — | — | 24,244 |
| Dividends to shareholders | — | — | (17,751) | (17,751) |
| Balance at 30 June 2005 | 182,563 | — | 4,184 | 186,747 |
| Balance at 1 July 2005 | 182,563 | — | 4,184 | 186,747 |
| Effect of change in accounting policy | — | — | — | — |
| Balance at 1 July 2005 — restated | 182,563 | — | 4,184 | 186,747 |
| Total recognised income and expense | — | — | 61,225 | 61,225 |
| Shares issued on acquisition of joint venture interests | 48,078 | — | — | 48,078 |
| Shares issued on exercise of options | 152 | — | — | 152 |
| Shares issued on conversion of convertible notes | 5,559 | — | — | 5,559 |
| Equity settled transactions | 9,991 | — | 308 | 10,299 |
| Dividends to shareholders | — | — | (61,412) | (61,412) |
| Balance at 30 June 2006 | 246,343 | — | 4,305 | 250,648 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 24. CAPITAL AND RESERVES (continued)

**Reconciliation of movement in capital and reserves attributable to equity holders of the parent (continued)**

| | The Company Ordinary shares | |
|---|---|---|
| | **2006** | **2005** |
| **Share capital** | | |
| On issue at 1 July | 172,824,327 | 154,724,477 |
| Shares issued on acquisition of joint venture interests | 7,584,677 | — |
| Shares issued on equity settled transaction | 3,027,396 | — |
| Shares issued on exercise of options | 110,000 | 1,380,000 |
| Shares issued on conversion of convertible notes | 3,833,946 | 16,719,850 |
| On issue at 30 June — fully paid | 187,380,346 | 172,824,327 |

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary 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.

In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**24. CAPITAL AND RESERVES (continued)**

**Hedging reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

**Dividends**

Dividends recognised in the current year by the Company are:

| | Cents per share | Total amount A$ | Franked/ unfranked | Date of payment |
|---|---|---|---|---|
| **2006** | | | | |
| Interim 2006 ordinary | 23.00 | 42,401,179 [(1)] | Franked | 31 March 2006 |
| Final 2005 ordinary | 11.00 | 19,010,676 [(2)] | Franked | 30 September 2005 |
| Total amount | 34.00 | 61,411,855 | | |
| **2005** | | | | |
| Interim 2005 ordinary | 7.00 | 11,877,073 [(2)] | Franked | 31 March 2005 |
| Final 2004 ordinary | 3.78 | 5,873,533 [(2)] | Franked | 30 September 2004 |
| Total amount | 10.78 | 17,750,606 | | |

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

(1) Paid out of AIFRS profits
(2) Paid out of old AGAAP profits

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided. The declaration and subsequent payment of dividends has no income tax consequences.

| | Cents per share | Total amount A$ | Franked/ unfranked | Date of payment |
|---|---|---|---|---|
| Final ordinary | 18.00 | 33,728,462 [(1)] | Franked | 9 October 2006 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**24. CAPITAL AND RESERVES (continued)**

**Hedging reserve (continued)**

The financial effect of these dividends have not been brought to account in the financial statements for the year ended 30 June 2006 and will be recognised in subsequent financial reports.

| | The Company | |
|---|---|---|
| | **2006** | **2005** |
| | A$'000 | A$'000 |
| **Dividend franking account** | | |
| 30% franking credits available to shareholders of the Company for subsequent financial years | 45,981 | 16,628 |

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(a) franking credits that will arise from the payment of the current tax liabilities;

(b) franking debits that will arise from the payment of dividends recognised as a liability at year-end;

(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax-consolidated group at year-end; and

(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by A$14,455,055 (2005: A$8,147,433).

In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of A$45,981,000 (2005: A$16,628,000) franking credits.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 25. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's and the consolidated entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

**Credit risk**

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

The credit risk on financial assets of the consolidated entity, which have been recognised on the balance sheet, is the carrying amount, net of impairment.

The consolidated entity minimises concentrations of credit risk by undertaking transactions with a number of customers in various countries. Credit risk on customers is also reduced by entering into letters of credit with customers and discounting receivables on a limited recourse basis.

Concentration of credit risk at balance date on trade receivables are: Asia 63% (2005: 43%), Europe 35% (2005: 44%), Americas Nil% (2005: 13%) and Other 2% (2005: Nil%). The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Credit risk on cash, deposits and derivative contracts is managed by ensuring that counterparties are recognised financial intermediaries with acceptable credit ratings and using several counterparties for transactions.

Foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large financial institutions. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the consolidated entity pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the consolidated entity.

**Interest rate risk**

The consolidated entity adopts a policy of ensuring an appropriate amount of its exposure to changes in interest rates on borrowings is on a fixed rate basis. Interest rate swaps denominated in United States dollars had been entered into to achieve an appropriate mix of fixed and floating rate exposure within the consolidated entity's policy. The swaps had a floating interest rate of 5.17% and a fixed interest rate of 2.73% and were closed out during the year.

The consolidated entity does not have any debt borrowings outstanding at 30 June 2006 and therefore classifies its interest swaps as ineffective and recognised a gain of A$214,000 for the year ended 30 June 2006.

At 30 June 2006, the Company and the consolidated entity had no interest rate swaps (2005: A$29,572,000 notional contract amount).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 25. FINANCIAL INSTRUMENTS (continued)

**Effective interest rate and repricing analysis**

In respect of income-earning financial assets and interest-bearing financial liabilities, the following tables indicate their effective interest rates at the balance sheet date and the periods in which they reprice.

| | Note | Effective interest rate % | Total A$'000 | 6 months or less A$'000 | 6-12 months A$'000 | 1-2 years A$'000 | 2-5 years A$'000 | More than 5 years A$'000 |
|---|---|---|---|---|---|---|---|---|
| **2006** | | | | | | | | |
| **Consolidated** | | | | | | | | |
| Cash and cash equivalents | 11 | 5.8 | 168,603 | 168,603 | — | — | — | — |
| Cash and deposits — not at call | 14 | 4.4 | 6,099 | 6,099 | — | — | — | — |
| Secured bank loans [1] | 19 | — | — | — | — | — | — | — |
| Redeemable convertible notes [2] | 19 | — | — | — | — | — | — | — |
| Deferred liability for acquisition of mining interest | 19 | 10.2 | (10,716) | (990) | (941) | (1,747) | (4,310) | (2,728) |
| Amounts payable for future user charges | 22 | — | (12,398) | (835) | (859) | (1,796) | (6,057) | (2,851) |
| | | | 151,588 | 172,877 | (1,800) | (3,543) | (10,367) | (5,579) |
| Interest rate swaps and options [1] | | — | — | — | — | — | — | — |
| **2005** | | | | | | | | |
| **Consolidated** | | | | | | | | |
| Cash and cash equivalents | 11 | 5.5 | 18,138 | 18,138 | — | — | — | — |
| Cash and deposits — not at call | 14 | 3.4 | 58,630 | 58,630 | — | — | — | — |
| Secured bank loans [1] | 19 | 4.6 | (19,102) | (19,102) | — | — | — | — |
| Redeemable convertible notes [2] | 19 | 10.0 | (5,627) | (5,627) | — | — | — | — |
| Deferred liability for acquisition of mining interest | 19 | 10.0 | (11,723) | (990) | (943) | (1,754) | (4,342) | (3,694) |
| Amounts payable for future user charges | 22 | — | (13,997) | (788) | (811) | (1,694) | (5,715) | (4,989) |
| | | | 26,319 | 50,261 | (1,754) | (3,448) | (10,057) | (8,683) |
| Interest rate swaps and options [1] | | — | (29,572) | 13,919 | 5,566 | 10,087 | — | — |

(1) The effect of interest rate hedging is incorporated into the average interest rate.

(2) These assets/liabilities bear interest at a fixed rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**25. FINANCIAL INSTRUMENTS (continued)**

**Foreign currency risk**

The consolidated entity enters into forward foreign exchange contracts and some option based products (smart forwards) to economically hedge a proportion of anticipated coal sale proceeds denominated in United States dollars and Australian dollar costs funded by United States dollar loans, subject to Board approved limits. The terms of these contracts are not more than 3 years. The amount of anticipated future sales and costs is forecast in light of current conditions in foreign markets, commitments from customers and to suppliers and experience. All sales from the first of each quarter, after allowing for the natural hedge designations referred to below, are designated as being hedged until all hedge contracts are fully utilised. Notes 1(e) and (f) set out the accounting treatment for foreign currency transactions and hedges.

**Natural hedge**

A Specific natural hedge existed between the United States dollar denominated cash advance term loan and United States dollar denominated coal sales revenue. The natural hedge position was established in prior periods when the cash advance term loan was restructured and the Australian dollar denominated debt was redrawn as a United States dollar denominated debt and upon further drawings of United States dollar denominated debt. The United States dollar denominated debt was repaid during the period and the unrealised foreign exchange gains deferred under previous AGAAP continue to be deferred and included in the measurement of the anticipated transaction when the transaction has occurred as originally designated.

**Forecasted transactions**

The consolidated entity classifies its forward exchange contracts hedging forecasted sales as cash flow hedges and measures them at fair value. The fair value of forward exchange contracts at 1 July 2005 was adjusted against the opening balance of the hedging reserve at that date.

The net fair value of forward exchange contracts used as hedges of forecasted sales at 30 June 2006 was A$887,000 (2005: A$15,829,000), comprising assets of A$2,711,000 (2005: A$18,962,000) and liabilities of A$1,824,000 (2005: A$3,133,000) that were recognised as derivatives measured at fair value.

**Recognised assets and liabilities**

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of 'net financing costs' (see Note 7). The fair value of forward exchange contracts used as economic hedges of monetary assets and liabilities in foreign currencies at 30 June 2006 was A$Nil (2005: A$Nil) for the consolidated entity and A$Nil (2005: A$Nil) for the Company recognised in the fair value derivatives.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 25. FINANCIAL INSTRUMENTS (continued)

**Sensitivity analysis**

In managing interest rate and currency risks the consolidated entity aims to reduce the impact of short-term fluctuations on the consolidated entity's earnings over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At 30 June 2006, it is estimated that a general increase of one percentage point in interest rates would increase the consolidated entity's profit before tax by approximately A$1,460,000 (2005: A$578,000). Interest rate swaps have been included in this calculation.

It is estimated that a general increase of one percentage point in the value of the Australian dollar against other foreign currencies would have decreased the consolidated entity's profit before tax by approximately A$332,000 for the financial year ended 30 June 2006 (2005: A$2,000). The forward exchange contracts have been included in this calculation.

**Fair values**

The fair values together with the carrying amounts shown in the balance sheet are as follows:

| | Note | Carrying amount 2006 A$'000 | Fair value 2006 A$'000 | Carrying amount 2005 A$'000 | Fair value 2005 A$'000 |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| Cash and cash equivalents | 11 | 168,603 | 168,603 | 18,138 | 18,138 |
| Trade and other receivables | 12 | 51,075 | 51,075 | 38,368 | 38,368 |
| Cash and deposits — not at call | 14 | 6,099 | 6,099 | 58,630 | 58,630 |
| Foreign currency derivative contracts: | | | | | |
| Assets | 14 | 2,711 | 2,711 | 22,426 | 18,962 |
| Liabilities | 22 | (1,824) | (1,824) | (1,906) | (3,133) |
| Trade and other payables | 18 | (68,538) | (68,538) | (61,346) | (61,346) |
| Secured bank loans | 19 | — | — | (19,102) | (19,102) |
| Redeemable convertible notes | 19 | — | — | (5,627) | (27,825) |
| Deferred liability for acquisition of mining interest | 19 | (10,716) | (10,716) | (11,723) | (11,723) |
| Employee benefits | 20 | (662) | (662) | (237) | (237) |
| Other financial liabilities | 22 | (12,529) | (12,529) | (15,599) | (15,599) |
| Unrecognised (losses)/gains | | | — | | (26,889) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**25. FINANCIAL INSTRUMENTS (continued)**

**Estimation of fair values**

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

**Derivatives**

Foreign currency derivative contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps broker quotes are used. Those quotes are back tested using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

**Interest-bearing loans and borrowings**

Fair value is calculated based on discounted expected future principal and interest cash flows.

**Convertible notes**

The fair value is based on quoted market prices.

**Trade and other receivables/payables**

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

**Interest rates used for determining fair value**

The entity uses the government yield curve as of 30 June 2006 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

| | **2006** | **2005** |
|---|---|---|
| | % | % |
| Derivatives | 5.0 - 6.5 | 5.0 - 6.0 |
| Loans and borrowings | — | 5.0 - 7.5 |
| Deferred liability for acquisition of mining interest | 10.2 | 10.0 |
| Receivables | 5.5 - 6.0 | 5.0 - 5.5 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 26. INTERESTS IN JOINT VENTURE OPERATIONS

The consolidated entity holds the following interests in various joint ventures whose principal activities are coal production, exploration and evaluation, and development.

| | Joint venture interest held | | |
|---|---|---|---|
| | **2006** | **2005** | **Principal activity** |
| | % | % | |
| Coppabella and Moorvale Joint Venture | 73.3 | 73.3 | Coal production |
| Monto Coal Joint Venture | 51 | 51 | Exploration and evaluation |
| Olive Downs Joint Venture | 90 | — | Exploration and evaluation |
| Moorvale West Joint Venture | 90 | — | Exploration and evaluation |
| West/North Burton Joint Venture | 65 | — | Exploration and evaluation |
| West Rolleston Joint Venture | 90 | — | Exploration and evaluation |
| West Walker Joint Venture | 85 | — | Exploration and evaluation |
| Bowen Basin Coal Joint Venture | 85 | — | Exploration and evaluation |
| Capricorn Joint Venture | 85 | — | Exploration and evaluation |
| Bowen Basin Coal Exploration Joint Venture | — | 58 (1) | Exploration and evaluation |

(1) Per the farm-in agreement, Macarthur Exploration Pty Ltd held a 50% interest in the tenements held in Bowen Basin Coal Exploration Joint Venture, except for West Rolleston and Capricorn in which it held a 75% interest. The 58% interest was applied based upon weighted contributions of existing (prior to farm-in arrangements) and new mining exploration permits. On 15 December 2005, the consolidated entity acquired additional interests in Bowen Basin exploration tenements. Following the acquisition, the joint venture participants agreed to restructure the joint venture into seven new joint ventures.

For the year ended 30 June 2006, the contributions of the Coppabella and Moorvale Joint Venture to the operating profit before tax of the consolidated entity was A$227,524,000 (2005: A$100,412,000). The value of the consolidated entity's 73.3% share of coal mined during the year by Coppabella and Moorvale Joint Venture was A$525,510,000 (2005: A$345,240,000).

There was no coal mined by the other joint ventures during the year.

Included in the assets and liabilities of the consolidated entity are the following items which represent the consolidated entity's interest in the assets and liabilities employed in the joint ventures, recorded in accordance with the accounting policies described in Note 1(c).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 26. INTERESTS IN JOINT VENTURE OPERATIONS (continued)

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current assets** | | | | |
| Cash and cash equivalents | — | 15 | — | — |
| Trade and other receivables | 11,448 | 6,216 | — | — |
| Inventories | 15,412 | 24,075 | — | — |
| Other financial assets | 6,098 | 319 | — | — |
| Other assets | 74,206 | 47,682 | — | — |
| **Total current assets** | **107,164** | **78,307** | **—** | **—** |
| **Non-current assets** | | | | |
| Trade and other receivables | 4,073 | 44 | — | — |
| Property, plant and equipment | 166,972 | 177,661 | — | — |
| Exploration and evaluation assets | 94,809 | 40,390 | — | — |
| Other assets | 2,904 | 12,723 | — | — |
| **Total non-current assets** | **268,758** | **230,818** | **—** | **—** |
| **Total assets** | **375,922** | **309,125** | **—** | **—** |
| **Current liabilities** | | | | |
| Trade and other payables | 65,815 | 48,614 | — | — |
| Provisions | 3,265 | 1,214 | — | — |
| Other financial liabilities | 1,825 | 1,599 | — | — |
| **Total current liabilities** | **70,905** | **51,427** | **—** | **—** |
| **Non-current liabilities** | | | | |
| Provisions | 16,502 | 12,715 | — | — |
| Other financial liabilities | 10,704 | 12,398 | — | — |
| **Total non-current liabilities** | **27,206** | **25,113** | **—** | **—** |
| **Total liabilities** | **98,111** | **76,540** | **—** | **—** |

Refer to Notes 27 and 28 for details of commitments and contingent liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 27. CAPITAL AND OTHER COMMITMENTS

#### (a) Capital expenditure commitments — joint ventures

Buildings and infrastructure contracted but not provided for and payable:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Not later than one year | 9,985 | 369 | — | — |
| Later than one year but not later than five years | 3,328 | — | — | — |
| | 13,313 | 369 | — | — |

#### (b) Operating lease commitments

Future operating lease rentals not provided for in the financial statements and payable:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Not later than one year | 553 | 416 | 474 | 416 |
| Later than one year but not later than five years | 1,632 | 1,452 | 1,618 | 1,452 |
| Later than five years | 289 | 703 | 289 | 703 |
| | 2,474 | 2,571 | 2,381 | 2,571 |

The consolidated entity leases a number of office spaces under operating leases. The leases typically run for a period of 2 to 7 years.

Lease payments are increased every year to reflect market rentals.

During the financial year ended 30 June 2006, A$386,000 was recognised as an expense in the income statement in respect of operating leases (2005: A$177,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**27. CAPITAL AND OTHER COMMITMENTS (continued)**

**(c) Mining leases — joint ventures**

Future mining lease rentals not provided for in the financial statements and payable:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Not later than one year | 372 | 298 | — | — |
| Later than one year but not later than five years | 1,194 | 1,056 | — | — |
| Later than five years | 2,959 | 3,277 | — | — |
| | 4,425 | 4,631 | — | — |

**(d) Exploration and evaluation expenditure**

**Exploration obligations**

In order to maintain current rights of tenure to exploration tenements, the consolidated entity is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. The expenditure obligations are subject to renegotiation when application for a mining lease and/or renewal of exploration permits is made and at other times. These obligations are not provided for in the financial statements and are payable:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Not later than one year | 1,111 | 477 | — | — |
| Later than one year but not later than five years | 1,998 | 125 | — | — |
| | 3,109 | 602 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 27. CAPITAL AND OTHER COMMITMENTS (continued)

#### (d) Exploration and evaluation expenditure (continued)

**Exploration costs**

Committed costs for exploration and evaluation areas not provided for in the financial statements and payable:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Not later than one year | 1 | 113 | — | — |
| Later than one year but not later than five years | — | 1 | — | — |
| | 1 | 114 | — | — |

#### (e) Operating commitments — joint ventures

Commitments under the electricity, water, rail, port, coal washing plant and train loading facility agreements for joint ventures not provided for in the financial statements and payable:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Not later than one year | 27,884 | 28,260 | 2,094 | — |
| Later than one year but not later than five years | 101,549 | 82,576 | 25,698 | — |
| Later than five years | 153,342 | 20,260 | 100,697 | — |
| | 282,775 | 131,096 | 128,489 | — |

In addition to the operating commitments in (e) above, other contracts on commercial terms and conditions have been entered into with contractors for overburden and mining operations at Coppabella and Moorvale mines and with original owners regarding royalty arrangements. As the amounts payable under the contracts vary with the quantities mined and sold, future commitments are not able to be reliably assessed and quantified.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**27. CAPITAL AND OTHER COMMITMENTS (continued)**

**(e) Operating commitments — joint ventures (continued)**

On 23 October 2002, the Coppabella and Moorvale Joint Venture participants agreed to pay a user charge to the Queensland Government for the facilitation of the transport infrastructure corridor (TIC) relocation. The user charge comprises 40 quarterly payments (consolidated entity share of A$596,000 per quarter; 2005: A$596,000 per quarter), commencing 1 October 2002, which have been included in the above operating commitments less the amounts payable for future user charges brought to account at 30 June 2006 (refer Note 22).

**(f) Employee compensation commitments**

**Key management personnel**

Commitments under non-cancellable employment contracts not provided for in the financial statements and payable:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Within one year | 830 | 265 | 438 | 265 |
| Later than one year but not later than five years | 327 | — | — | — |
| | 1,157 | 265 | 438 | 265 |

Denis Wood is a director of Queensland Coke & Energy Pty Ltd (QCE), a wholly controlled entity of the Company. By a Services Agreement dated 1 August 2005, Coal Industry Services Pty Ltd, a director related entity, has agreed to provide the services of Denis Wood to QCE at A$392,400 per annum. The contract relates to the development of a coke project and is for an initial period of 3 years but is able to be extended. If the project is successfully developed, a royalty is payable for 15 years at A$0.50 per tonne for up to 1.6 million tonnes per annum and A$0.25 per tonne for each tonne over 1.6 million tonnes per annum. The contract may be terminated for particular stated events, in which case no termination payments are payable. If terminated for other stated events, the royalty remains payable.

The above amounts represent minimum commitments under these arrangements offset by any amounts brought to account as liabilities at 30 June 2006.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**27. CAPITAL AND OTHER COMMITMENTS (continued)**

**(g) Other commitments**

**Joint ventures**

*Deeds of cross charge*

(i) The payment of future cash calls by Coppabella Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the Coppabella and Moorvale Joint Venture is secured by a guarantee from the Company and a charge over Coppabella Coal Pty Ltd's interest in the Coppabella and Moorvale Joint Venture in favour of the other joint venturers and Macarthur Coal (C&M Management) Pty Ltd as the manager of the Coppabella and Moorvale Joint Venture.

(ii) The payment of future cash calls by Monto Coal 2 Pty Ltd, a controlled entity, for its share of operating and capital costs in the Monto Coal Joint Venture is secured by a charge over Monto Coal 2 Pty Ltd's interest in the Monto Coal Joint Venture in favour of the other joint venturers.

(iii) The payment of future cash calls by Olive Downs Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the Olive Downs Joint Venture is secured by a charge over Olive Downs Coal Pty Ltd's interest in the Olive Downs Joint Venture in favour of the other joint venturers.

(iv) The payment of future cash calls by Capricorn Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the Capricorn Joint Venture is secured by a charge over Capricorn Coal Pty Ltd's interest in the Capricorn Joint Venture in favour of the other joint venturers.

(v) The payment of future cash calls by West Burton Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the West/North Burton Joint Venture is secured by a charge over West Burton Coal Pty Ltd's interest in the West/North Burton Joint Venture in favour of the other joint venturers.

(vi) The payment of future cash calls by West Rolleston Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the West Rolleston Joint Venture is secured by a charge over West Rolleston Coal Pty Ltd's interest in the West Rolleston Joint Venture in favour of the other joint venturers.

(vii) The payment of future cash calls by West Walker Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the West Walker Joint Venture is secured by a charge over West Walker Coal Pty Ltd's interest in the West Walker Joint Venture in favour of the other joint venturers.

(viii) The payment of future cash calls by Moorvale West Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the Moorvale West Joint Venture is secured by a charge over Moorvale West Coal Pty Ltd's interest in the Moorvale West Joint Venture in favour of the other joint venturers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**27. CAPITAL AND OTHER COMMITMENTS (continued)**

**(g) Other commitments (continued)**

**Joint ventures (continued)**

*Deeds of cross charge (continued)*

(ix) The payment of future cash calls by BB Interests Pty Ltd, a controlled entity, for its share of operating and capital costs in the Bowen Basin Coal Joint Venture is secured by a charge over BB Interests Pty Ltd's interest in the Bowen Basin Coal Joint Venture in favour of the other joint venturers.

*Other*

(x) The Company has guaranteed the commitments of Coppabella Coal Pty Ltd and Monto Coal 2 Pty Ltd, controlled entities, in relation to royalty arrangements.

**Associates**
Refer Note 30.

**28. CONTINGENCIES**

**Indemnities**

Indemnities have been provided to directors and certain executive officers of the Company in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations outstanding at 30 June 2006.[1]

[1] These contingent liabilities are considered remote.

**Guarantees**

Coppabella Coal Pty Ltd, a controlled entity, as a participant of the Coppabella and Moorvale Joint Venture, has provided bank guarantees totalling A$57,787,000 (2005: A$32,324,000) in respect of rehabilitation works, electricity, water, transport infrastructure corridor facilities and customers.[1]

The consolidated entity, as a participant of the Coppabella and Moorvale Joint Venture, has entered into a Residual Value Guarantee (RVG) with a bank regarding the lease residual value of the dragline used by a contractor at the Coppabella Mine for A$10,775,000 (2005: A$10,775,000). The lease term expires on 30 June 2008. Management of Macarthur Coal (C&M Management) Pty Ltd, the manager of the Coppabella and Moorvale Joint Venture, expect the future value of the dragline to be in excess of the residual value at 30 June 2008 provided the contractor performs to the Asset Management Plan. The financier of the dragline also holds a fixed and floating charge over Coppabella Coal Pty Ltd's interests up to the agreed share of the residual value being A$10,775,000 (2005: A$10,775,000).[1]

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**28. CONTINGENCIES (continued)**

**Guarantees (continued)**

Coppabella Coal Pty Ltd, a controlled entity, as a participant of the Coppabella and Moorvale Joint Venture, has entered into the Coppabella Dragline Agreement dated 19 April 2002 requiring purchase guarantees to be provided in relation to the Marion 8200 dragline erected by Roche Mining Pty Ltd (Roche) and that will be used by Roche in undertaking a contract, being for the removal of overburden and mining of coal. In the event of a termination of the contract, the guarantees in place require Macarthur Coal (C&M Management) Pty Ltd, as agent for the Coppabella and Moorvale Joint Venture, to assume all the reasonable continuing liabilities of the dragline, any items that relate to the construction or operation of the dragline (including spare parts) and any financing responsibilities in relation to the operating lease between Roche and the Lease Financiers including Investec Bank (Australia) Limited.(1)

The Company has provided financial guarantees totalling A$11,840,000 to GE Commercial Finance in respect of mining equipment leased by a contractor, in the event of financial default by the contractor.(1)

(1) These contingent liabilities are considered remote.

**Environmental**

Current Queensland Government environment policy requires the preparation of an Environmental Management Overview Strategy (EMOS) and a Plan of Operations detailing the quality, timing and standards of planned mine rehabilitation work. The Coppabella and Moorvale Joint Venture has prepared its EMOS and its Plans of Operations has been accepted by the Environmental Protection Agency. In addition to the EMOS and the Plans of Operations, the consolidated entity is required to lodge securities with the Department of Natural Resources, Mines and Water to ensure compliance with relevant legislation. The total amount of the guarantees lodged with the Department of Natural Resources, Mines and Water as at 30 June 2006 is A$13,760,006 (2005: A$11,074,000) (included in the amount of guarantees referred to above).(1)

(1) These contingent liabilities are considered remote.

**Memorandum of Understanding**

During the year ended 30 June 2005, Queensland Coke & Energy Pty Ltd (QCE), a wholly owned controlled entity of the Company entered into a memorandum of understanding with a contractor to develop an estimated cost and execution plan for the design and construction of the coke plant as part of the feasibility study. If the memorandum of understanding is terminated by QCE and an alternative contractor is ultimately appointed to construct the plant, a fee of A$1,500,000 will be payable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

**28. CONTINGENCIES (continued)**

**Litigation**

On 19 December 2003, Macarthur Coal (C&M Management) Pty Ltd (MCCM), as manager and agent for the Coppabella and Moorvale Joint Venture participants, lodged a Notice of Dispute with its mining contractor Roche Mining Pty Ltd in relation to a mining contract at the Coppabella mine. The claim included recovery of loss and damages for higher production costs and demurrage resulting from a failure of the contractor to deliver coal in accordance with the contract provisions.

On 9 June 2004, following rejection by the Superintendent of claims from the contractor, the contractor lodged a Notice of Dispute on MCCM under the mining contract. The rejected claim, consisting of 9 heads of claim, included higher costs of mining in the 2004 financial year due to alleged delay in access to particular mining areas and alleged adverse mining conditions. By letter dated 28 June 2004, the contractor referred the Dispute to arbitration.

On 28 February 2005, the arbitrator determined that 7 of the 9 points of claim could proceed to arbitration. MCCM received the detailed Points of Claim (referred to as the 2004 financial year claim) from the contractor on 21 March 2005 and detailed Further Particulars on 5 September 2005. On 7 April 2006, MCCM lodged its defence in relation to the Points of Claim and lodged a counter claim against the contractor. On 5 July 2005, the contractor lodged a further Notice of Dispute in relation to alleged additional costs resulting from the Superintendent's approval of the 2005 financial year Mine Plan (referred to as the 2005 financial year claim). The claims were rejected by the Superintendent and the subsequent dispute was referred to arbitration in August 2005. On 10 April 2006, the contractor lodged a Consolidated and Further Amended Points of Claim in relation to both the 2004 financial year claim and the 2005 financial year claim. At the date of this report, MCCM has not submitted a defence to the consolidated claim. On 13 January 2006, the contractor lodged a further Notice of Claim in relation to alleged additional costs resulting from the Superintendent's approval of the 2006 financial year Mine Plan. As at the date of the report, the contractor has not provided to the Superintendent requested details of the nature and quantum of this claim.

The total value of the three claims noted above for financial years 2004, 2005 and 2006 is in the order of A$100,000,000 for the Coppabella and Moorvale Joint Venture, of which the consolidated entity holds a 73.3% interest. Areas of duplication have been identified across these three claims and Roche is yet to provide particulars regarding basis and quantum of the third claim.

The Directors of the consolidated entity (and the Manager) dispute the above claims and will vigorously defend their position in arbitration. The Arbitrator has set a date to hear the consolidated 2004 and 2005 financial year claims in June 2007.

In the Director's opinion, disclosure of any further information about the above matter would be prejudicial to the interests of the consolidated entity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 29. CONSOLIDATED ENTITIES

| | Ownership interest | |
|---|---|---|
| | **2006** | **2005** |
| | % | % |
| **Parent entity** | | |
| Macarthur Coal Limited | | |
| **Subsidiaries** | | |
| Coppabella Coal Pty Ltd | 100 | 100 |
| Macarthur Coal Management Pty Ltd | 100 | 100 |
| Macarthur Coal Mine Management Pty Ltd | 100 | 100 |
| Moorvale Coal Pty Ltd | 100 | 100 |
| Moorvale Interest Pty Ltd | 100 | 100 |
| Monto Coal Pty Ltd | 100 | 100 |
| Monto Coal 2 Pty Ltd | 100 | 100 |
| Macarthur Exploration Pty Ltd | 100 | 100 |
| Olive Downs Coal Pty Ltd | 100 | 100 |
| Queensland Coke & Energy Pty Ltd | 100 | 100 |
| Capricorn Coal Pty Ltd | 100 | — |
| West Burton Coal Pty Ltd | 100 | — |
| West Rolleston Coal Pty Ltd | 100 | — |
| West Walker Coal Pty Ltd | 100 | — |
| Moorvale West Coal Pty Ltd | 100 | — |
| BB Interests Pty Ltd | 100 | — |

All subsidiaries were incorporated and carry on business in Australia.

In the financial statements of the Company, investments in controlled entities are measured at cost and included with other financial assets.

Refer to Note 14. The Company has no jointly controlled entities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 30. INVESTMENTS IN ASSOCIATED ENTITIES

| | Principal activities | Reporting date | Interest held 2006 | Interest held 2005 |
|---|---|---|---|---|
| | | | % | % |
| Macarthur Coal (C&M Management) Pty Ltd | Manager of the Coppabella and Moorvale Joint Venture | 30 June | 73.3 | 73.3 |
| Bistrotel Pty Ltd | Property Owner | 30 June | 73.3 | 73.3 |

Investments in these entities are held in connection with joint venture arrangements. Under these arrangements, the consolidated entity does not have control over these associated entities, and accordingly have not been consolidated. The impact of the results and operations of the associated entities are not material to the consolidated entity and accordingly have not been equity accounted.

| | Consolidated 2006 | Consolidated 2005 |
|---|---|---|
| | A$'000 | A$'000 |
| **Commitments** | | |
| Share of associates' operating lease commitments payable: | | |
| Not later than one year | 22 | 28 |
| Later than one year but not later than five years | 32 | 85 |
| | 54 | 113 |

### 31. ACQUISITIONS OF SUBSIDIARIES AND JOINT VENTURE INTERESTS

The following controlled entities were acquired during the year:

| | Date acquired | Consolidated entity's interest | Consideration | Contribution to consolidated net profit |
|---|---|---|---|---|
| | | % | A$'000 | A$'000 |
| **2006** | | | | |
| Moorvale West Coal Pty Ltd [1] | 28 November 2005 | 100 | — | — |
| West Walker Coal Pty Ltd [1] | 28 November 2005 | 100 | — | — |
| West Burton Coal Pty Ltd [1] | 28 November 2005 | 100 | — | — |
| West Rolleston Coal Pty Ltd [1] | 28 November 2005 | 100 | — | — |
| Capricorn Coal Pty Ltd [1] | 28 November 2005 | 100 | — | — |
| BB Interests Pty Ltd | 15 December 2005 | 100 | 16,420 | — |
| **2005** | | | | |
| Queensland Coke & Energy Pty Ltd [1] | 14 December 2004 | 100 | — | — |
| Macarthur Coal Mine Management Pty Ltd [1] | 15 June 2005 | 100 | — | — |

(1) The companies were acquired as a shelf company for nominal cost. The shelf companies had no assets nor had they operated at the date of acquisition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 31. ACQUISITIONS OF SUBSIDIARIES AND JOINT VENTURE INTERESTS (continued)

**Acquisition of BB Interests Pty Ltd**

On 15 December 2005, the consolidated entity acquired all of the shares in BB Interests Pty Ltd. Consideration for the acquisition was the issue of Macarthur Coal shares to the value of A$16,420,000. BB Interests Pty Ltd was acquired from CITIC Australia Coal Exploration Pty Ltd as part of the acquisition of interests in Bowen Basin exploration tenements from the consolidated entity's joint venture partners Bowen Basin Exploration Pty Ltd and CITIC Australia Coal Exploration Pty Ltd.

The company did not contribute to the consolidated entity's net profit for the period.

**Effect of acquisition**

The acquisition had the following effect on the consolidated entity's assets and liabilities:

| | Carrying amounts A$'000 |
|---|---|
| **Acquiree's net assets at acquisition date** | |
| Exploration and evaluation assets | 16,958 |
| Repayment of loan from Macarthur Exploration Pty Ltd, a controlled entity of the Company | (538) |
| Consideration paid, satisfied in shares | 16,420 |

**Acquisition of joint venture interest from Bowen Basin Exploration Pty Ltd**

The consolidated entity acquired interests from its joint venture partner, Bowen Basin Exploration Pty Ltd. Bowen Basin Exploration Pty Ltd is an entity controlled by Mr Ken Talbot, Chief Executive Officer of the consolidated entity. Consideration for the acquisition was the issue of Macarthur Coal shares to the value of A$31,658,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**31. ACQUISITIONS OF SUBSIDIARIES AND JOINT VENTURE INTERESTS (continued)**

**Effect of acquisition**

The acquisition had the following effect on the consolidated entity's assets and liabilities.

| | **Carrying amounts** A$'000 |
|---|---|
| **Net assets acquired at acquisition date** | |
| Exploration and evaluation assets | 31,695 |
| Repayment of loan from Macarthur Exploration Pty Ltd, a controlled entity of the Company | (37) |
| Consideration paid, satisfied in shares | 31,658 |

Following the acquisition of BB Interests Pty Ltd and joint venture interests from Bowen Basin Exploration Pty Ltd, the joint venture participants agreed to restructure the Bowen Basin Coal Exploration Joint Venture into seven new joint ventures as detailed below:

| | **Interest held 30 June 2006** | | |
|---|---|---|---|
| | **Consolidated Entity** % | **CITIC Australia Coal Exploration Pty Ltd** % | **Bowen Basin Exploration Pty Ltd** % |
| Olive Downs Joint Venture | 90 | 10 | — |
| Moorvale West Joint Venture | 90 | 10 | — |
| West/North Burton Joint Venture | 65 | 10 | 25 |
| West Walker Joint Venture | 85 | 15 | — |
| West Rolleston Joint Venture | 90 | 10 | — |
| Bowen Basin Coal Joint Venture | 85 | 15 | — |
| Capricorn Joint Venture | 85 | 15 | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 32. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Cash flows from operating activities** | | | | |
| Profit for the period | 149,589 | 64,147 | 61,225 | 21,464 |
| Adjustments for: | | | | |
| Depreciation | 16,011 | 15,734 | 61 | 25 |
| Amortisation of financing costs | 257 | 973 | 257 | 569 |
| Impairment losses | 91 | 1,471 | — | — |
| Amounts set aside to provisions | 6,440 | 2,111 | 455 | 124 |
| Exploration and evaluation expenses | 387 | 152 | — | — |
| Foreign exchange (gains)/losses | (2,682) | 185 | — | — |
| Overburden in advance written off | — | 3,120 | — | — |
| Interest on convertible notes | 250 | 2,012 | 250 | 2,012 |
| Interest on interest-bearing liabilities | 1,195 | 2,602 | — | — |
| Interest on unwinding of discount | 721 | 830 | — | — |
| Borrowing costs | 1,908 | — | — | — |
| (Gain)/loss on sale of property, plant and equipment | 130 | 23 | 23 | — |
| Equity-settled share based payment expenses | 308 | — | 308 | — |
| **Operating profit before changes in working capital and provisions** | 174,605 | 93,360 | 62,579 | 24,194 |
| Increase/(decrease) in income tax payable | 27,890 | 16,505 | 27,890 | 16,505 |
| Increase/(decrease) in net deferred tax liabilities/assets | 8,679 | 4,225 | 117 | 141 |
| (Increase)/decrease in tax related receivables | — | — | (62,729) | (19,745) |
| (Increase)/decrease in income tax receivable | — | 7,000 | — | 7,000 |
| (Increase)/decrease in trade and other receivables | (11,657) | (7,649) | (863) | (172) |
| (Increase)/decrease in inventories | 8,663 | (12,763) | — | — |
| (Increase)/decrease in overburden in advance | (23,831) | (17,598) | — | — |
| (Increase)/decrease in deferred expenditure | 257 | 1,946 | 257 | 31 |
| Increase/(decrease) in trade and other payables | 16,885 | 22,958 | (39) | 598 |
| **Net cash from operating activities** | 201,491 | 107,984 | 27,212 | 28,552 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 33. RELATED PARTIES

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

**Non-executive directors**

| | |
|---|---|
| Keith De Lacy | Chairperson |
| Don Nissen | |
| Roger Marshall | |
| Peter Forbes | |

**Executive directors**

| | |
|---|---|
| Ken Talbot | Chief Executive Officer |

**Executives**

| | |
|---|---|
| Nicole Hollows | Chief Financial Officer, Macarthur Coal Limited |
| Brett Garland | Vice President — Underground Mine Development, Macarthur Coal Limited |
| Robert Adams | Company Secretary, Macarthur Coal Limited |
| Ian Neill | Vice President — Open-cut Development and Business Improvement, Macarthur Coal Limited |
| Gary Lee | Vice President — Marketing, Macarthur Coal Limited |
| Shane Stephan | Vice President — Open-cut Production, Macarthur Coal Limited |
| Ian McAleese | Vice President — Corporate Development, Macarthur Coal Limited, appointed 16 January 2006 |
| Denis Wood | Chief Executive Officer, Queensland Coke & Energy Pty Ltd |
| Ken Carnes | Director of Marketing, Macarthur Coal Limited |
| Mark Turner | Vice President — Open-cut Northern District, Macarthur Coal Mine Management Pty Ltd, appointed 16 January 2006, resigned 10 May 2006 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 33. RELATED PARTIES (continued)

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$ | A$ | A$ | A$ |
| **Key management compensation** | | | | |
| The key management personnel compensation included in 'personnel expenses' (see Note 5) are as follows: | | | | |
| Short-term employee benefits | 3,744,128 | 2,745,149 | 3,279,603 | 2,378,173 |
| Other long-term benefits | 75,611 | — | 75,611 | — |
| Post-employment benefits | 417,394 | 279,095 | 300,397 | 247,223 |
| Termination benefits | — | 75,000 | — | 75,000 |
| Share based payments | 86,122 | 39,984 | 86,122 | 39,984 |
| | 4,323,255 | 3,139,228 | 3,741,733 | 2,740,380 |
| **Loans to key management personnel** | | | | |
| Details regarding the aggregate of loans made, guaranteed or secured by any entity in the consolidated entity to key management personnel and their related parties are as follows: | | | | |
| Loans to key management personnel — unsecured | 87,735 | — | 87,735 | — |

Loans totalling A$115,990 (2005: A$Nil) were made to key management personnel during the year in respect of the employee share loan plan. During the year, repayments of A$28,255 (2005: A$Nil) were made on the loans.

All loans to key management personnel in relation to the employee share loan plan are interest free and any dividends received on the allocated shares are applied to repay the loan balance. Fixed regular loan repayments are also made to repay the loan balance. No amounts have been written down or recorded as allowances, as the balances are considered fully collectable.

**Individual directors and executives compensation disclosures**

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration report section of the Directors' report.

The Chief Executive Officer, Ken Talbot, has a 3 year contract which only provides for a fixed salary. The annual payment has been recognised as a commitment in Note 27(f).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 33. RELATED PARTIES (continued)

**Individual directors and executives compensation disclosures (continued)**

Denis Wood, a director of Queensland Coke & Energy Pty Ltd (QCE) a controlled entity of the Company has a services agreement with the consolidated entity. Refer Note 27(f) for particulars.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

**Equity instruments**

All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the Directors' option plan and Executive option plan.

Options granted to directors are on the same terms and conditions as those granted to other employees. There were no options granted during the year.

**Options and rights over equity instruments**

The movement during the reporting period in the number of options over ordinary shares in Macarthur Coal Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| | Held at 1 July 2005 | Exercised | Held at 30 June 2006 |
|---|---|---|---|
| **Executives** | | | |
| Shane Stephan | 110,000 | 110,000 | — |

No options held by key management personnel are vested but not exercisable. Refer to Note 20 'Share based payments — Executive Option Plan' for further details.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 33. RELATED PARTIES (continued)

**Movements in shares**

The movement during the reporting period in the number of ordinary shares in Macarthur Coal Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| | Held at 1 July 2005 | Acquisitions | Received on exercise of options | Disposals | Held at 30 June 2006 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Keith De Lacy | 308,880 | 1,860 | — | 30,000 | 280,740 |
| Roger Marshall | 142,380 | 1,860 | — | 20,000 | 124,240 |
| Don Nissen | 306,580 | 7,260 | — | — | 313,840 |
| Peter Forbes | 20,380 | 1,860 | — | — | 22,240 |
| Ken Talbot | 67,453,748 | 5,204,285 | — | 6,000,000 | 66,658,033 |
| **Executives** | | | | | |
| Nicole Hollows | 15,000 | — | — | 5,000 | 10,000 |
| Brett Garland | — | 3,682 | — | — | 3,682 |
| Robert Adams | 170,000 | 3,682 | — | 170,000 | 3,682 |
| Ian Neill | — | 3,682 | — | — | 3,682 |
| Gary Lee | — | 3,682 | — | — | 3,682 |
| Shane Stephan | 55,707 | 3,682 | 110,000 | 165,707 | 3,682 |
| Ian McAleese | — | 5,000 | — | — | 5,000 |
| Denis Wood | — | — | — | — | — |
| Ken Carnes | — | — | — | — | — |
| Mark Turner | — | 2,945 | — | 2,945 | — |

No shares were granted to key management personnel during the reporting period as compensation, other than 1,860 shares acquired each by Keith De Lacy, Roger Marshall, Don Nissen and Peter Forbes as application of past directors' fees received, as detailed in Note 1(r).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**33. RELATED PARTIES (continued)**

**Movements in shares (continued)**

The movement during the previous reporting period in the number of ordinary shares in Macarthur Coal Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| | Held at 1 July 2004 | Acquisitions | Received on exercise of options | Disposals | Held at 30 June 2005 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Keith De Lacy | 118,600 | 2,380 | 300,000 | 112,100 | 308,880 |
| Roger Marshall | 120,000 | 2,380 | 300,000 | 280,000 | 142,380 |
| Don Nissen | 124,200 | 2,380 | 200,000 | 20,000 | 306,580 |
| Peter Forbes | 18,000 | 2,380 | — | — | 20,380 |
| Ken Talbot | 67,453,748 | — | — | — | 67,453,748 |
| **Executives** | | | | | |
| Nicole Hollows | 74,600 | — | 120,000 | 179,600 | 15,000 |
| Robert Adams | 25,699 | — | 200,000 | 55,699 | 170,000 |
| Ian Neill | — | 4,000 | — | 4,000 | — |
| Gary Lee | — | — | — | — | — |
| Shane Stephan | 72,000 | — | 43,707 | 60,000 | 55,707 |
| Bruce Denney | — | — | — | — | — |
| Denis Wood | — | — | — | — | — |
| Ken Carnes | — | — | — | — | — |

No shares were granted to key management personnel during the previous reporting period as compensation, other than 2,380 shares acquired each by Keith De Lacy, Roger Marshall, Don Nissen and Peter Forbes as application of past directors' fees received, as detailed in Note 1(r).

**Other key management personnel transactions with the Company or its controlled entities**

A number of specified directors, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The terms and conditions of the transactions with directors and personally related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**33. RELATED PARTIES (continued)**

**Other key management personnel transactions with the Company or its controlled entities (continued)**

Amounts payable to specified directors and their personally-related entities at reporting date arising from related party transactions were as follows:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | A$ | A$ | A$ | A$ |
| **Current liabilities** | | | | |
| Trade and other payables | 9,570 | 9,570 | — | — |

The consolidated entity acquired certain joint venture interests in the Bowen Basin Coal Exploration Joint Venture and interests in other tenements from its joint venture partners Bowen Basin Exploration Pty Ltd (BBE) (a related entity of Ken Talbot, Chief Executive Officer) and CITIC Australia Coal Exploration Pty Ltd (CITIC Exploration) (of which Roger Marshall, director of the Company, is a director) for a total acquisition price of A$48,653,000. The acquisition price was based on an independent valuation of the percentage of tenement interests to be acquired by the consolidated entity and was approved at a shareholders general meeting held on 15 December 2005.

The interests acquired by the consolidated entity were:

| | Interests acquired from BBE | Interests acquired from CITIC Exploration (by acquiring all the shares in BB Interests Pty Ltd) |
|---|---|---|
| | % | % |
| **Prospect** | | |
| Olive Downs | 25 | 15 |
| Moorvale West | 25 | 15 |
| West/North Burton | — | 15 |
| West Walker | 25 | 10 |
| West Rolleston | 12.5 | 2.5 |
| Capricorn | — | 10 |
| Bowen Basin Coal | 25 | 10 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**33. RELATED PARTIES (continued)**

**Other key management personnel transactions with the Company or its controlled entities (continued)**

The interests retained by BBE and CITIC Exploration following completion of the acquisition by Macarthur Coal are:

| | Interests retained by BBE | Interests retained by CITIC Exploration |
|---|---|---|
| | % | % |
| **Prospect** | | |
| Olive Downs | — | 10 |
| Moorvale West | — | 10 |
| West/North Burton | 25 | 10 |
| West Walker | — | 15 |
| West Rolleston | — | 10 |
| Capricorn | — | 15 |
| Bowen Basin Coal | — | 15 |

*Acquisition from CITIC Exploration*

The interests acquired from CITIC Exploration were held by BB Interests Pty Ltd, a wholly owned subsidiary of CITIC Exploration. the Company purchased all of the shares in BB Interests from CITIC Exploration for A$16,958,000 with the payment comprising:

- An amount equal to CITIC Exploration's share of the exploration expenditure incurred by the consolidated entity on all tenements since 20 October 2004 based on interests held after the acquisition was completed which was paid by the consolidated entity in cash. The amount was set off against CITIC Exploration's obligation to pay that amount to consolidated entity.

- The remainder by the issue of 2,590,392 shares in the Company to CITIC Australia Coal Pty Ltd ABN 94 050 137 972. The price at which the shares were issued was A$6.33889912 which was determined by calculating the arithmetic average of the daily volume weighted average sale price of Macarthur Coal shares sold in the ordinary course of trading on ASX during the five trading days commencing on 11 October 2005.

*Acquisition from BBE*

The purchase price of A$31,695,000 comprised:

- An amount equal to BBE's share of the exploration expenditure incurred by the consolidated entity on all tenements since 20 October 2004 based on interests held after the acquisition is completed in cash. The amount was set off against BBE's obligation pay that amount to the consolidated entity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 33. RELATED PARTIES (continued)

**Other key management personnel transactions with the Company or its controlled entities (continued)**

*Acquisition from BBE (continued)*

- The remainder by the issue of 4,994,285 shares in the Company to MDA Investments Pty Ltd ACN 096 001 857, a related entity of Ken Talbot, Chief Executive Officer. The price at which the shares were issued was A$6.33889912 which was determined by calculating the arithmetic average of the daily volume weighted average sale price of Macarthur Coal shares sold in the ordinary course of trading on the ASX during the five trading days commencing on 11 October 2005.

*Funding of BBE's Called Sums*

The consolidated entity has an agreement with BBE to lend funds to BBE from time to time equal to the amount of any calls under the West/North Burton Joint Venture Agreement. The loans may only be used for paying the relevant calls.

BBE must pay interest on the loan amounts at the rate of the 'Indicator Lending Rates — Bank variable housing loans interest rate' last published by the Reserve Bank of Australia before the commencement of each financial year. Interest accrues daily and is capitalised monthly.

BBE's obligation to lend these funds continues from 15 December 2005 until the earliest of:

(a) the date that BBE no longer has an interest under the West/ North Burton Joint Venture

(b) the date which is three years from 15 December 2005

(c) the date the parties to the West/North Burton Joint Venture decide not to expend further funds on exploration of the relevant tenements

(d) the date of termination of the deed.

BBE must repay all monies plus interest:

(a) on completion of a sale of all or part of BBE's interest

(b) three years from 15 December 2005

(c) 60 days after the date the parties to the West/North Burton Joint Venture decide to not to expend further funds on exploration of the relevant tenements

(d) two business days after termination of the deed

The consolidated entity may set-off any amount due for repayment against any sale proceeds from the sale of all or part of BBE's interest.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**33. RELATED PARTIES (continued)**

**Non-key management personnel disclosures**

**Identity of related parties**

The consolidated entity has a related party relationship with its subsidiaries (see Note 29), joint ventures (see Note 26) and with its key management personnel (refer to disclosures with key management personnel on preceding pages).

**Subsidiaries**

(a) The Company charges interest at normal commercial rates on loans to its wholly-owned controlled entities. The loans to the wholly-owned controlled entities are unsecured and have no fixed repayment terms. Interest is charged quarterly at 7.620% (2005: 8.405%) per annum on the outstanding balance. Interest totalling A$6,118,000 (2005: A$9,368,000) was charged to the wholly-owned controlled entities during the year.

(b) The Company also charges management fees to its wholly-owned controlled entities based on the total corporate office expenses. Management fees totalling A$3,358,000 (2005: A$1,994,000) were charged to the wholly-owned controlled entities during the year.

(c) A wholly-owned controlled entity, Coppabella Coal Pty Ltd, paid a dividend of A$61,412,000 (2005: A$19,034,000) to the Company.

(d) A wholly-owned controlled entity, Moorvale Interest Pty Ltd, paid a dividend of A$76,000 (2005: A$Nil) to the Company.

The aggregate amounts receivable and payable by the consolidated entity and the Company from non-director related parties are shown in Notes 12 and 18. Included in these amounts is the aggregate tax related receivable from wholly-owned controlled entities under the Tax Consolidation legislation.

Macarthur Coal Management Pty Ltd, a controlled entity, charges management fees to Macarthur Coal (C&M Management) Pty Ltd, an associated entity, pursuant to the Management Fee Deed dated 31 August 1998. The management fee paid is equal to 0.5% of the aggregate FOB revenue paid to the Coppabella and Moorvale Joint Venture participants from the sale in aggregate of the first 2 million tonnes of coal from the Coppabella Mine in each financial year for the life of the Deed.

The Company recharges employee and administration expenses at cost to Macarthur Coal (C&M Management) Pty Ltd, an associated entity, and the Coppabella and Moorvale Joint Venture. The expenses are for administration costs and work performed by Company staff in relation to Coppabella and Moorvale mine activities. Expenses totalling A$3,882,000 (2005: A$2,320,000) were charged to Macarthur Coal (C&M Management) Pty Ltd and Coppabella and Moorvale Joint Venture during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

### 34. EXPLANATION OF TRANSITION TO AIFRS

As stated in Note 1(a), these are the consolidated entity's and the Company's first consolidated financial statements prepared in accordance with AIFRS.

The policies set out in Note 1 have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's and the Company's date of transition), except for the adoption of AASB 132 and AASB 139 to the comparative period and opening AIFRS balance sheet.

In preparing its opening AIFRS balance sheet, the consolidated entity and the Company have adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous AGAAP). An explanation of how the transition from previous AGAAP to AIFRS has affected the consolidated entity's and the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 34. EXPLANATION OF TRANSITION TO AIFRS (continued)

**Reconciliation of equity**

| | | 1 July 2004 | | | 30 June 2005 | | |
|---|---|---|---|---|---|---|---|
| | Note | Previous AGAAP A$'000 | Effect of transition to AIFRS A$'000 | AIFRS A$'000 | Previous AGAAP A$'000 | Effect of transition to AIFRS A$'000 | AIFRS A$'000 |
| **Consolidated** | | | | | | | |
| **Assets** | | | | | | | |
| **Current assets** | | | | | | | |
| Cash and cash equivalents | | 11,775 | — | 11,775 | 18,138 | — | 18,138 |
| Trade and other receivables | (e),(j) | 29,788 | 494 | 30,282 | 30,744 | 1,814 | 32,558 |
| Inventories | | 11,312 | — | 11,312 | 24,075 | — | 24,075 |
| Income tax receivable | | 7,000 | — | 7,000 | — | — | — |
| Other financial assets | | 33,863 | — | 33,863 | 78,273 | — | 78,273 |
| Other assets | (j) | 37,028 | (494) | 36,534 | 48,020 | (1,814) | 46,206 |
| **Total current assets** | | **130,766** | **—** | **130,766** | **199,250** | **—** | **199,250** |
| **Non-current assets** | | | | | | | |
| Trade and other receivables | (j) | 2,768 | — | 2,768 | 7,624 | 5,392 | 13,016 |
| Other financial assets | | 8,906 | — | 8,906 | 2,783 | — | 2,783 |
| Deferred tax assets | (d) | 6,601 | (6,601) | — | 5,565 | (5,565) | — |
| Property, plant and equipment | (a),(b) | 186,094 | 3,613 | 189,707 | 174,603 | 3,290 | 177,893 |
| Exploration and evaluation assets | (c) | 37,126 | (39) | 37,087 | 40,555 | (165) | 40,390 |
| Other assets | (j) | 3,497 | — | 3,497 | 12,722 | (5,392) | 7,330 |
| **Total non-current assets** | | **244,992** | **(3,027)** | **241,965** | **243,852** | **(2,440)** | **241,412** |
| **Total assets** | | **375,758** | **(3,027)** | **372,731** | **443,102** | **(2,440)** | **440,662** |
| **Liabilities** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Trade and other payables | (e) | 28,409 | — | 28,409 | 61,346 | — | 61,346 |
| Interest-bearing loans and borrowings | | 14,816 | — | 14,816 | 26,662 | — | 26,662 |
| Income tax payable | | — | — | — | 16,505 | — | 16,505 |
| Employee benefits | | 65 | — | 65 | 198 | — | 198 |
| Provisions | (b) | 1,613 | (716) | 897 | 1,258 | (44) | 1,214 |
| Other financial liabilities | | 9,404 | — | 9,404 | 4,807 | — | 4,807 |
| Other liabilities | | 10,452 | — | 10,452 | 20,221 | — | 20,221 |
| **Total current liabilities** | | **64,759** | **(716)** | **64,043** | **130,997** | **(44)** | **130,953** |
| **Non-current liabilities** | | | | | | | |
| Trade and other payables | | 10,000 | — | 10,000 | — | — | — |
| Interest-bearing loans and borrowings | | 67,370 | — | 67,370 | 9,790 | — | 9,790 |
| Deferred tax liabilities | (d) | 17,885 | 10,995 | 28,880 | 25,011 | 8,645 | 33,656 |
| Employee benefits | | 48 | — | 48 | 39 | — | 39 |
| Provisions | (a),(b) | 8,349 | 2,486 | 10,835 | 10,691 | 2,024 | 12,715 |
| Other financial liabilities | | 18,501 | — | 18,501 | 12,698 | — | 12,698 |
| Other liabilities | | 9,395 | — | 9,395 | 4,723 | — | 4,723 |
| **Total non-current liabilities** | | **131,548** | **13,481** | **145,029** | **62,952** | **10,669** | **73,621** |
| **Total liabilities** | | **196,307** | **12,765** | **209,072** | **193,949** | **10,625** | **204,574** |
| **Net assets** | | 179,451 | (15,792) | 163,659 | 249,153 | (13,065) | 236,088 |
| **Equity** | | | | | | | |
| Issued capital | (i) | 155,053 | 1,477 | 156,530 | 181,086 | 1,477 | 182,563 |
| Retained earnings | (a)-(d),(f) | 24,398 | (17,269) | 7,129 | 68,067 | (14,542) | 53,525 |
| **Total equity** | | **179,451** | **(15,792)** | **163,659** | **249,153** | **(13,065)** | **236,088** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 34. EXPLANATION OF TRANSITION TO AIFRS (continued)

**Reconciliation of equity (continued)**

| | | 1 July 2004 | | | 30 June 2005 | | |
|---|---|---|---|---|---|---|---|
| | Note | Previous AGAAP A$'000 | Effect of transition to AIFRS A$'000 | AIFRS A$'000 | Previous AGAAP A$'000 | Effect of transition to AIFRS A$'000 | AIFRS A$'000 |
| **The Company** | | | | | | | |
| **Assets** | | | | | | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | | 11,686 | — | 11,686 | 17,685 | — | 17,685 |
| Trade and other receivables | (e),(j) | 8,587 | (8,200) | 387 | 27,827 | (19,418) | 8,409 |
| Income tax receivable | | 7,000 | — | 7,000 | — | — | — |
| Other assets | (j) | 642 | (73) | 569 | 332 | (75) | 257 |
| **Total current assets** | | **27,915** | **(8,273)** | **19,642** | **45,844** | **(19,493)** | **26,351** |
| **Non-current assets** | | | | | | | |
| Trade and other receivables | (j) | 113,512 | — | 113,512 | 126,754 | — | 126,754 |
| Other financial assets | | 57,871 | — | 57,871 | 56,385 | — | 56,385 |
| Deferred tax assets | (d) | 6,601 | (5,796) | 805 | 5,565 | (4,901) | 664 |
| Property, plant and equipment | (a),(b) | 78 | — | 78 | 138 | — | 138 |
| Other assets | (j) | 257 | — | 257 | — | — | — |
| **Total non-current assets** | | **178,319** | **(5,796)** | **172,523** | **188,842** | **(4,901)** | **183,941** |
| **Total assets** | | **206,234** | **(14,069)** | **192,165** | **234,686** | **(24,394)** | **210,292** |
| **Liabilities** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Trade and other payables | (e) | 548 | 3,069 | 3,617 | 1,176 | — | 1,176 |
| Interest-bearing loans and borrowings | | — | — | — | 5,627 | — | 5,627 |
| Income tax payable | | — | — | — | 16,505 | — | 16,505 |
| Employee benefits | | 65 | — | 65 | 198 | — | 198 |
| **Total current liabilities** | | **613** | **3,069** | **3,682** | **23,506** | **—** | **23,506** |
| **Non-current liabilities** | | | | | | | |
| Trade and other payables | | 1,563 | — | 1,563 | — | — | — |
| Interest-bearing loans and borrowings | | 29,871 | — | 29,871 | — | — | — |
| Deferred tax liabilities | (d) | 17,885 | (17,885) | — | 25,011 | (25,011) | — |
| Employee benefits | | 48 | — | 48 | 39 | — | 39 |
| **Total non-current liabilities** | | **49,367** | **(17,885)** | **31,482** | **25,050** | **(25,011)** | **39** |
| **Total liabilities** | | **49,980** | **(14,816)** | **35,164** | **48,556** | **(25,011)** | **23,545** |
| **Net assets** | | 156,254 | 747 | 157,001 | 186,130 | 617 | 186,747 |
| **Equity** | | | | | | | |
| Issued capital | (i) | 155,053 | 1,477 | 156,530 | 181,086 | 1,477 | 182,563 |
| Retained earnings | (a)-(d),(f) | 1,201 | (730) | 471 | 5,044 | (860) | 4,184 |
| **Total equity** | | **156,254** | **747** | **157,001** | **186,130** | **617** | **186,747** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 34. EXPLANATION OF TRANSITION TO AIFRS (continued)

#### (a) Dismantling assets and provisions

An obligation exists to dismantle and remove certain items of property, plant and equipment and to restore sites on which they are located. Under previous AGAAP, the cost of dismantling was recognised as an expense when incurred.

In accordance with AIFRS, dismantling costs should be recognised as part of the cost of assets and as a provision at the time of the obligating event.

The effect of accounting for dismantling costs is to:

- increase Property, plant and equipment by A$2,760,000 at 1 July 2004 and 30 June 2005;
- increase Provisions by A$3,037,000 at 1 July 2004 and A$3,249,000 at 30 June 2005;
- increase Accumulated depreciation by A$267,000 at 1 July 2004 and A$539,000 at 30 June 2005;
- increase Depreciation charge by A$272,000 for the year ended 30 June 2005; and
- increase Interest expense by A$212,000 for the year ended 30 June 2005.

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 1 July 2004 | 30 June 2005 | 1 July 2004 | 30 June 2005 |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Property, plant and equipment | 2,760 | 2,760 | — | — |
| Accumulated depreciation | (267) | (539) | — | — |
| Dismantling provisions | (3,037) | (3,249) | — | — |
| Retained earnings | | | | |
| — (increase)/decrease | 544 | 1,028 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 34. EXPLANATION OF TRANSITION TO AIFRS (continued)

#### (b) Rehabilitation provisions

Under previous AGAAP, some rehabilitation provisions recognised in relation to infrastructure were expensed. In accordance with AIFRS, the present value of these costs should be recognised as part of the cost of assets. Also under AIFRS, all rehabilitation obligations (both infrastructure and non-infrastructure areas) are recognised at present value. Under previous AGAAP, rehabilitation provisions were recognised at current costs.

The effect is to:

- increase Property, plant and equipment by A$1,267,000 at 1 July 2004 and A$1,325,000 at 30 June 2005;
- increase Accumulated depreciation by A$147,000 at 1 July 2004 and A$256,000 at 30 June 2005;
- decrease Provisions by A$1,267,000 at 1 July 2004 and A$1,269,000 at 30 June 2005;
- increase Depreciation charge by A$109,000 for the year ended 30 June 2005;
- increase Interest expense by A$618,000 for the year ended 30 June 2005; and
- decrease Rehabilitation expense by A$678,000 for the year ended 30 June 2005.

| | **Consolidated** | | **The Company** | |
|---|---|---|---|---|
| | **1 July 2004** | **30 June 2005** | **1 July 2004** | **30 June 2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Property, plant and equipment | 1,267 | 1,325 | — | — |
| Accumulated depreciation | (147) | (256) | — | — |
| Rehabilitation provisions | 1,267 | 1,269 | — | — |
| Retained earnings | | | | |
| — (increase)/decrease | (2,387) | (2,338) | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 34. EXPLANATION OF TRANSITION TO AIFRS (continued)

#### (c) Exploration and evaluation assets

Costs incurred before an entity has legal right of access to an exploration area must be expensed. Under previous AGAAP, these exploration costs were capitalised as incurred.

The effect in the consolidated entity is to decrease Exploration and evaluation assets and Retained earnings by A$39,000 at 1 July 2004 and A$165,000 at 30 June 2005.

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **1 July 2004** | **30 June 2005** | **1 July 2004** | **30 June 2005** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Exploration and evaluation assets | (39) | (165) | — | — |
| Retained earnings | | | | |
| — (increase)/decrease | 39 | 165 | — | — |

#### (d) Deferred tax balances

On transition to AIFRS, the balance sheet method of tax effect accounting was adopted, rather than the liability method adopted under previous AGAAP. In addition, in accordance with AIFRS, deferred tax assets and deferred tax liabilities previously disclosed under previous AGAAP have been offset to show a net deferred tax asset/liability.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 34. EXPLANATION OF TRANSITION TO AIFRS (continued)

#### (d) Deferred tax balances (continued)

The impacts on the net deferred tax asset/liability on transition to AIFRS relating to the items noted are as follows:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 1 July 2004 | 30 June 2005 | 1 July 2004 | 30 June 2005 |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Rehabilitation and dismantling provisions | 531 | 594 | — | — |
| Capital raising costs | 747 | 457 | 747 | 457 |
| Property, plant and equipment | (18,874) | (15,261) | — | — |
| Other | — | — | — | 160 |
| Tax funding arrangement | — | — | 11,342 | 19,493 |
| Net movement in deferred tax asset/liability | (17,596) | (14,210) | 12,089 | 20,110 |
| Disclosed as follows: | | | | |
| Decrease in deferred tax asset | (6,601) | (5,565) | (5,796) | (4,901) |
| Decrease/(increase) in deferred tax liability | (10,995) | (8,645) | 17,885 | 25,011 |

The effect on the income statement for the year ended 30 June 2005 was to decrease the previously reported tax charge for the period by A$3,260,000 for the consolidated entity and A$130,000 for the Company.

#### (e) Tax consolidation

The consolidated entity had applied UIG 52 for tax consolidation purposes under previous AGAAP, resulting in the Company as the head entity of the tax-consolidated group recognising both current and deferred tax in relation to the wholly-owned subsidiaries in the tax consolidated group.

Under AIFRS, the consolidated entity has adopted UIG 1052 which requires the subsidiaries to initially recognise both current and deferred taxes before recognising the head entity's assumption of the current tax liability (asset) and deferred tax asset from tax losses. Under AIFRS the subsidiaries are now required to recognise deferred tax assets relating to temporary differences, other than for tax losses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**34. EXPLANATION OF TRANSITION TO AIFRS (continued)**

**(e) Tax consolidation (continued)**

Under previous AGAAP, the tax funding arrangements assets and liabilities were recognised as inter-entity tax-related balances whereas tax funding arrangements expenses and revenues were recognised as a component of income tax expense or revenue.

Upon adoption of UIG 1052 under AIFRS, all tax funding arrangements amounts are recognised as inter-entity amounts, giving rise to a contribution by or distribution to equity participants to the extent they differ from the amounts assumed by the head entity from subsidiaries. The entities in the Australian tax-consolidated group have revised the tax funding arrangements to address only current tax amounts and deferred tax assets from tax losses so that no contributions or distributions to equity participants are expected to arise in the future.

The effect of the above in the Company at 1 July 2004 is to decrease tax related receivables by A$8,273,000, increase tax related payables by A$3,069,000 and decrease net deferred tax by A$11,342,000. The effect in the Company at 30 June 2005 is to decrease tax related receivables and net deferred tax by A$19,493,000.

For the consolidated entity, the impact of moving from UIG 52 to UIG 1052 is the same as the impact of moving to AASB 112.

There is nil impact on the consolidated entity from the tax funding arrangement changes as upon consolidation the inter-company balances are eliminated.

**(f) Equity**

The effect of the above adjustments on equity is as follows:

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | 1 July 2004 | 30 June 2005 | 1 July 2004 | 30 June 2005 |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| Property, plant and equipment | (a),(b) | 3,613 | 3,290 | — | — |
| Exploration and evaluation assets | (c) | (39) | (165) | — | — |
| Rehabilitation provisions | (b) | 1,267 | 1,269 | — | — |
| Dismantling provisions | (a) | (3,037) | (3,249) | — | — |
| Trade and other receivables | (e) | — | — | (8,273) | (19,493) |
| Trade and other payables | (e) | — | — | (3,069) | — |
| Deferred tax | (d) | (17,596) | (14,210) | 12,089 | 20,110 |
| Total adjustment to equity — increase/(decrease) | | (15,792) | (13,065) | 747 | 617 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**34. EXPLANATION OF TRANSITION TO AIFRS (continued)**

**(g) Business Combinations**

As permitted by the election available under AASB1, the classification and accounting treatment of business combinations that occurred prior to transition date have not been restated in preparing the opening AIFRS balance sheet. The assets and liabilities are therefore subject to the other requirements of AASB 1.

**(h) Financial income**

In accordance with AIFRS, financial income has been reclassified from other operating income for disclosure purposes.

**(i) Capital raising costs**

Share capital in the Company has been increased by the amount of the deferred tax asset of A$1,477,000 at 1 July 2004 and 30 June 2005, relating to capital raising costs recognised in share capital.

**(j) Prepayments**

In accordance with AIFRS, prepayments have been reclassified from other assets to receivables for disclosure purposes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 34. EXPLANATION OF TRANSITION TO AIFRS (continued)

**Reconciliation of profit for 2005**

| | | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|---|
| | | Previous AGAAP | Effect of transition to AIFRS | AIFRS | Previous AGAAP | Effect of transition to AIFRS | AIFRS |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| Revenue from coal sales | | 370,157 | — | 370,157 | — | — | — |
| Cost of coal sold | (a),(b) | (232,806) | 297 | (232,509) | — | — | — |
| **Gross profit** | | 137,351 | 297 | 137,648 | — | — | — |
| Other income | (h) | 2,546 | (2,385) | 161 | 31,549 | (10,518) | 21,031 |
| Distribution expenses | | (29,765) | — | (29,765) | — | — | — |
| Administration expenses | | (8,584) | — | (8,584) | (6,496) | — | (6,496) |
| Other expenses | | (4,787) | — | (4,787) | (25) | — | (25) |
| **Results from operating activities** | | 96,761 | (2,088) | 94,673 | 25,028 | (10,518) | 14,510 |
| Financial income | (h) | — | 2,385 | 2,385 | — | 10,518 | 10,518 |
| Financial expenses | (a),(b) | (6,588) | (830) | (7,418) | (2,647) | — | (2,647) |
| **Net financing income/(costs)** | | (6,588) | 1,555 | (5,033) | (2,647) | 10,518 | 7,871 |
| **Profit before tax** | | 90,173 | (533) | 89,640 | 22,381 | — | 22,381 |
| Income tax (expense)/benefit | (d) | (28,753) | 3,260 | (25,493) | (787) | (130) | (917) |
| **Profit for the period attributable to equity holders of the parent** | | 61,420 | 2,727 | 64,147 | 21,594 | (130) | 21,464 |
| **Earnings per share for profit attributable to ordinary equity holders of the Company:** | | | | | | | |
| Basic earnings per share from continuing operations | | A$0.38 | A$0.02 | A$0.40 | | | |
| Diluted earnings per share from continuing operations | | A$0.37 | A$0.02 | A$0.39 | | | |

**Explanation of adjustments to the cash flow statement**

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 35. CHANGE IN ACCOUNTING POLICY

In the current financial year the consolidated entity adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the consolidated entity recognising all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of the hedging reserve at 1 July 2005.

The impact on the balance sheet in the comparative period is set out below as an adjustment to the opening balance sheet at 1 July 2005. The transitional provisions will not have any effect in future reporting periods.

**Reconciliation of opening balances affected by AASB 132 and 139 at 1 July 2005**

| | | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|---|
| | | Previous AGAAP | Effect of transition to AIFRS | AIFRS | Previous AGAAP | Effect of transition to AIFRS | AIFRS |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| Derivative contracts | (a) | 20,520 | (4,691) | 15,829 | — | — | — |
| Deferred gains on foreign currency contracts | (a) | (20,520) | 20,520 | — | — | — | — |
| Deferred gains on United States dollar bank loans | (b) | (4,423) | 4,423 | — | — | — | — |
| Deferred tax liability | (c) | — | (4,748) | (4,748) | — | — | — |
| Hedging reserve | (a),(b) | — | (15,504) | (15,504) | — | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

### 35. CHANGE IN ACCOUNTING POLICY (continued)

Notes to the reconciliation of financial instruments as if AASB 139 was applied at 1 July 2005:

(a) Under previous AGAAP, the consolidated entity did not recognise derivatives at fair value on the balance sheet. In accordance with AIFRS derivatives are now recognised at fair value.

The effect in the consolidated entity is to decrease fair value of derivatives and hedging reserve by A$4,691,000, comprising decrease in assets of A$3,464,000 and increase in liabilities of A$1,227,000 at 1 July 2005. In addition, in accordance with AASB 1, gains deferred under previous AGAAP of A$20,520,000 have been transferred to the hedging reserve on 1 July 2005.

(b) Under AIFRS, deferred gains on the United States dollar bank loans continue to be deferred and are included in the measurement of the anticipated transaction, when the transaction has occurred as originally designated. Therefore, the deferred gains under previous AGAAP of A$4,423,000 have been transferred to the hedging reserve on 1 July 2005.

(c) The above adjustments increased deferred tax liability by A$4,748,000 and decreased the hedging reserve on 1 July 2005.

## DIRECTORS' DECLARATION

1. In the opinion of the directors of Macarthur Coal Limited ('the Company'):

   (a) the financial statements and notes set out on pages 72 to 129, and the remuneration disclosures that are contained in the Remuneration report in the Directors' report set out on pages 49 to 54, are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;

   (b) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2006.

Dated at Brisbane this 12th day of September 2006.

Signed in accordance with a resolution of the directors:

**Keith De Lacy**
*Chairman*

## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MACARTHUR COAL LIMITED

## SCOPE

### The financial report , remuneration disclosures and directors' responsibility

The financial report comprises the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes to the financial statements Notes 1 to 35, and the directors' declaration set out on pages 72 to 130 for both Macarthur Coal Limited (the 'Company') and Macarthur Coal Limited and its controlled entities (the 'consolidated entity'), for the year ended 30 June 2006. The consolidated entity comprises both the Company and the entities it controlled during that financial year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ('remuneration disclosures'), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading 'Remuneration report' in the Directors' report, set out on pages 55 to 62, and not in the financial report.

The Remuneration report also contains information in sections marked as 'unaudited' not required by Australian Accounting Standard AASB 124 which is not subject to our audit.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards*. The directors are also responsible for the remuneration disclosures contained in the Directors' report.

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MACARTHUR COAL LIMITED (continued)**

**SCOPE (continued)**

**Audit approach**

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and that the remuneration disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

## AUDIT OPINION

1. In our opinion, the financial report of Macarthur Coal Limited is in accordance with:

   (a) the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

   (b) other mandatory financial reporting requirements in Australia.

2. The remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

**KPMG**

**Robert S Jones**
Partner

Brisbane
12 September 2006

## INCOME STATEMENTS

For the year ended 30 June 2007

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2007 | 2006 | 2007 | 2006 |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| Revenue from coal sales | | 362,796 | 534,755 | — | — |
| Cost of coal sold | | (254,808) | (287,574) | — | — |
| **Gross profit** | | 107,988 | 247,181 | — | — |
| Other income | 6 | 14,752 | 2,463 | 58,454 | 64,944 |
| Distribution expenses | | (22,315) | (22,836) | — | — |
| Administration expenses | | (13,955) | (14,325) | (8,795) | (10,680) |
| Other expenses | 7 | (4,498) | (893) | (139) | (84) |
| **Results from operating activities** | | 81,972 | 211,590 | 49,520 | 54,180 |
| Financial income | 10 | 17,028 | 7,644 | 22,803 | 8,694 |
| Financial expenses | 10 | (4,295) | (5,189) | (4,491) | (1,704) |
| **Net financing income** | | 12,733 | 2,455 | 18,312 | 6,990 |
| **Profit before tax** | | 94,705 | 214,045 | 67,832 | 61,170 |
| Income tax (expense)/benefit | 11 (a) | (28,161) | (64,456) | (4,148) | 55 |
| **Profit for the year attributable to equity holders of the Company** | | 66,544 | 149,589 | 63,684 | 61,225 |
| **Earnings per share for profit attributable to the ordinary equity holders of the Company:** | | | | | |
| Basic earnings per share from continuing operations | 13 | $0.36 | $0.83 | | |
| Diluted earnings per share from continuing operations | 13 | $0.36 | $0.83 | | |
| **Dividends per share — ordinary shares** | 27 | $0.18 | $0.41 | | |

The income statements are to be read in conjunction with the notes of the financial statements set out on pages 43 to 100.

## STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 30 June 2007

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2007 | 2006 | 2007 | 2006 |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| **Recognised directly in equity** | | | | | |
| Cash flow hedges: | | | | | |
| Fair value gains/(losses) taken to equity | | 17,448 | (4,089) | — | — |
| Fair value (gains)/losses transferred to income statement | | (7,018) | (8,595) | — | — |
| Net change in fair value of available-for-sale financial assets | | 6,584 | — | 6,584 | — |
| Net change in fair value of available-for-sale financial assets transferred to income statement | | (5,581) | — | (5,581) | — |
| **Income and expense recognised directly in equity** | 27 | 11,433 | (12,684) | 1,003 | — |
| **Profit for the year** | | 66,544 | 149,589 | 63,684 | 61,225 |
| **Total recognised income and expense for the period attributable to equity holders of the Company** | 27 | 77,977 | 136,905 | 64,687 | 61,225 |
| **Effect of change in accounting policy** | | | | | |
| Effect of adoption of AASB 132 and AASB 139 on 1 July 2005: | | | | | |
| Net increase in Cash Flow Hedging Reserve: | | | | | |
| Cumulative changes in fair value of effective cash flow hedges | | — | 20,252 | — | — |
| Related deferred income tax | | — | (4,748) | — | — |
| | 27 | — | 15,504 | — | — |

Other movements in equity arising from transactions with owners as owners are set out in Note 27.

The amounts recognised directly in equity are disclosed net of tax — see Notes 11 and 12 for tax effect.

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 43 to 100.

## BALANCE SHEETS

As at 30 June 2007

| | Note | Consolidated 2007 A$'000 | Consolidated 2006 A$'000 | Company 2007 A$'000 | Company 2006 A$'000 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | 14 | 96,565 | 168,603 | 21,964 | 18,038 |
| Trade and other receivables | 15 | 35,690 | 52,662 | 88,786 | 71,346 |
| Inventories | 16 | 28,627 | 15,412 | — | — |
| Other financial assets | 17 | 57,695 | 8,810 | 33,115 | — |
| Overburden in advance | 18 | 105,552 | 74,206 | — | — |
| Assets classified as held for sale | 19 | 33,779 | — | — | — |
| **Total current assets** | | 357,908 | 319,693 | 143,865 | 89,384 |
| **Non-current assets** | | | | | |
| Trade and other receivables | 15 | 3,523 | 4,603 | 158,551 | 185,299 |
| Other financial assets | 17 | — | — | 73,343 | 73,343 |
| Deferred tax assets | 12 | — | — | 748 | 547 |
| Property, plant and equipment | 20 | 182,149 | 170,107 | 866 | 798 |
| Exploration and evaluation assets | 21 | 66,303 | 94,809 | — | — |
| Overburden in advance | 18 | 2,765 | 2,904 | — | — |
| **Total non-current assets** | | 254,740 | 272,423 | 233,508 | 259,987 |
| **Total assets** | | 612,648 | 592,116 | 377,373 | 349,371 |
| **Current liabilities** | | | | | |
| Trade and other payables | 22 | 81,416 | 68,538 | 2,055 | 1,137 |
| Loans and borrowings | 23 | 3,376 | 1,931 | — | — |
| Income tax payable | 12 | 6,770 | 44,395 | 6,770 | 44,395 |
| Employee benefits | 24 | 1,703 | 506 | 439 | 438 |
| Provisions | 25 | 1,030 | 3,344 | — | — |
| Other financial liabilities | 26 | 3,795 | 3,272 | 2,000 | — |
| **Total current liabilities** | | 98,090 | 121,986 | 11,264 | 45,970 |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 22 | — | — | 104,907 | 52,499 |
| Loans and borrowings | 23 | 13,953 | 8,785 | — | — |
| Deferred tax liabilities | 12 | 56,941 | 42,335 | — | — |
| Employee benefits | 24 | 117 | 156 | 117 | 156 |
| Provisions | 25 | 19,829 | 16,600 | 90 | 98 |
| Other financial liabilities | 26 | 8,908 | 11,081 | — | — |
| **Total non-current liabilities** | | 99,748 | 78,957 | 105,114 | 52,753 |
| **Total liabilities** | | 197,838 | 200,943 | 116,378 | 98,723 |
| **Net assets** | | 414,810 | 391,173 | 260,995 | 250,648 |
| **Equity** | | | | | |
| Share capital | 27 | 246,343 | 246,343 | 246,343 | 246,343 |
| Reserves | 27 | 14,253 | 2,820 | 1,003 | — |
| Retained earnings | 27 | 154,214 | 142,010 | 13,649 | 4,305 |
| **Total equity** | 27 | 414,810 | 391,173 | 260,995 | 250,648 |

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 43 to 100.

**STATEMENTS OF CASH FLOWS**
For the year ended 30 June 2007

| | Note | Consolidated 2007 A$'000 | Consolidated 2006 A$'000 | Company 2007 A$'000 | Company 2006 A$'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash receipts from customers | | 382,767 | 525,529 | 3,634 | 2,774 |
| Cash paid to suppliers and employees | | (304,456) | (303,899) | (7,866) | (16,839) |
| Cash generated from operations | | 78,311 | 221,630 | (4,232) | (14,065) |
| Dividends received | | — | — | 54,340 | 61,488 |
| Interest received | | 9,055 | 7,644 | 14,830 | 8,694 |
| Interest paid | | — | — | (4,491) | (1,122) |
| Income taxes paid | | (57,236) | (27,783) | (57,236) | (27,783) |
| **Net cash from operating activities** | 36 | 30,130 | 201,491 | 3,211 | 27,212 |
| **Cash flows from investing activities** | | | | | |
| Proceeds from sale of property, plant and equipment | | 170 | 380 | — | — |
| Acquisition of property, plant and equipment | | (19,829) | (7,301) | (209) | (744) |
| Acquisition of equity securities | | (51,974) | — | (51,974) | — |
| Proceeds from sale of equity securities | | 28,264 | — | 28,264 | — |
| Proceeds from exploration and evaluation assets | | 16,870 | — | — | — |
| Exploration and evaluation expenditure | | (8,421) | (6,729) | — | — |
| Proceeds from sale of assets held for sale | | 49,497 | — | — | — |
| Payments for other acquisitions | | (34,254) | — | — | — |
| Payments for assets held for sale | | (20,689) | — | — | — |
| Contributions from joint ventures | | 322,408 | 367,042 | — | — |
| Contributions to joint ventures | | (322,164) | (314,433) | — | — |
| Advances from controlled entities | | — | — | 226,902 | 93,798 |
| Advances to controlled entities | | — | — | (147,928) | (58,403) |
| Advances from related parties | | 3,068 | — | — | — |
| Advances to related parties | | (3,766) | (1,868) | — | — |
| **Net cash from investing activities** | | (40,820) | 37,091 | 55,055 | 34,651 |

**STATEMENTS OF CASH FLOWS**
For the year ended 30 June 2007

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2007 | 2006 | 2007 | 2006 |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from the issue of share capital | | — | 152 | — | 152 |
| Repayment of loans and borrowings | | (1,139) | (20,434) | — | — |
| Payment of financial expenses: | | | | | |
| Convertible notes | | — | (250) | — | (250) |
| Other | | (1,621) | (3,103) | — | — |
| Repayment of other financial liabilities | | (1,926) | (3,070) | — | — |
| Payments for lease liabilities | | (2,322) | — | — | — |
| Dividends paid | 27 | (54,340) | (61,412) | (54,340) | (61,412) |
| **Net cash from financing activities** | | (61,348) | (88,117) | (54,340) | (61,510) |
| Net (decrease)/increase in cash and cash equivalents | | (72,038) | 150,465 | 3,926 | 353 |
| Cash and cash equivalents at 1 July | | 168,603 | 18,138 | 18,038 | 17,685 |
| **Cash and cash equivalents at 30 June** | 14 | 96,565 | 168,603 | 21,964 | 18,038 |

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 43 to 100.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

### 1. REPORTING ENTITY

Macarthur Coal Limited (the 'Company') is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2007 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities. The principal activities of the Group are exploration, project evaluation and coal mining activities in Queensland's Bowen Basin.

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. The consolidated financial report of the Group also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board. The Company's financial report does not comply with IFRSs as the Company has elected to apply the relief provided to parent entities by AASB 132: *Financial Instruments: Presentation and Disclosure* in respect of certain disclosure requirements.

The financial statements were approved by the Board of Directors on 28 August 2007.

#### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except that derivative financial instruments and available-for-sale financial assets are measured at their fair value.

The methods used to measure fair values are discussed further in Note 4.

#### (c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand dollars, unless otherwise stated.

#### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**2. BASIS OF PREPARATION (continued)**

**(d) Use of estimates and judgements (continued)**

These estimates and associated assumptions are based on historic experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. These accounting policies have been consistently applied by each entity in the Group. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Management discussed with the Audit and Risk Management Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are discussed below.

***Key sources of estimation uncertainty and judgements***

*Financial Instruments*

Note 28 contains analysis of the foreign exchange exposure of the Group and risks in relation to foreign exchange movements.

*Rehabilitation and dismantling provisions*

As set out in Note 3(m) and Note 25, certain assumptions are required to be made in determining the amount the Group is expected to incur to settle its obligations in relation to rehabilitation of the mine sites and dismantling of infrastructure. The discounted value reflects a combination of management's assessment of the cost of performing the work required, future changes in prices affecting rehabilitation and dismantling costs, the timing of future cash flow estimates, the life of the mines based on economically recoverable reserves, being 58,053,600 (2006: 61,327,267) tonnes for the Coppabella Mine and 16,529,033 (2006: 20,458,515) tonnes for the Moorvale Mine at the beginning of the financial year and the discount rate of 7.34% (2006: 6.88%).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**2. BASIS OF PREPARATION (continued)**

**(d) Use of estimates and judgements (continued)**

***Key sources of estimation uncertainty and judgements* (continued)**

*Recoverability of non-current assets*

As set out in Note 3(j), certain assumptions are required to be made in order to assess the recoverability of non-current assets where there is an impairment indicator. Key assumptions include the future coal price, future cash flows, an estimated discount rate and estimates of coal reserves. Estimates of coal reserves in themselves are dependant on various assumptions, in addition to those described above, including operating cost assumptions. Changes in these estimates could materially impact on coal reserves, and could therefore affect estimates of future cash flows used in the assessment of recoverable amount, estimates of the life of mine and depreciation.

*Contingent liabilities — litigation*

Certain claims have been made on the Group by a mining contractor. Judgements about the validity of the claim have been made by the directors. Further details are included in Note 31.

*Lease classification*

As set out in Note 3(h), leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases. UIG 4: *Determining whether an Arrangement contains* a Lease was applied when evaluating whether an arrangements between the Group and an associated entity contained leases of equipment.

*Hedge accounting*

As set out in Note 3(c) and Note 28, management's judgment is necessary when determining whether a derivative financial instrument qualifies for hedge accounting. Factors such as forecast demand, production and port allocation are considered when assessing whether forecast transactions are highly probable as required under AASB 139: *Financial Instruments: Recognition and Measurement*.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

In the prior financial year the Group adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement* in accordance with the transitional rules of AASB 1: *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This change has been accounted for by adjusting the opening balance of retained earnings and reserves at 1 July 2005, as disclosed in the reconciliation of movements in Note 27.

#### (a) Basis of consolidation

***Subsidiaries***

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

In the Company's financial statements, investments in subsidiaries are carried at cost.

***Associates (equity accounted investees)***

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

***Jointly controlled operations and assets***

The interest of the Group in jointly controlled operations (including unincorporated joint ventures) and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(a) Basis of consolidation (continued)**

***Transactions eliminated on consolidation***

Intra-group balances, and any unrealised income and expenses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee, with adjustments made to the 'Investment in associates' and 'Share of associate's net profit' accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

**(b) Foreign currency**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Australian dollars at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Nonmonetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate ruling at the dates that fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

**(c) Financial instruments**

***Non-derivative financial instruments***

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the income statement, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (c) Financial instruments (continued)

***Non-derivative financial instruments* (continued)**

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

Accounting for financial income and expenses is discussed in Note 3(p).

*Available-for-sale financial assets*

The Group's investments in equity securities are classified as available-for-sale assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(j)), are recognised as a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

*Other*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

***Derivative financial instruments***

The Group holds derivative financial instruments to hedge its foreign currency exposures. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value, and changes therein are accounted for as described below.

However, where derivative financial instruments qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (refer below).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) Financial instruments (continued)**

***Derivative financial instruments* (continued)**

*Cash flow hedges*

Changes in fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the income statement in the same period that the hedged item affects the income statement.

***Derecognition of financial assets and liabilities***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(i) the rights to receive cash flows from the asset have expired;

(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or

(iii) the Group has transferred its rights to receive cash flows from the asset and either:

(a) has transferred substantially all the risks and rewards of the asset, or

(b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(d) Share capital**

***Ordinary shares***

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

***Dividends***

Dividends are recognised as a liability in the period in which they are declared.

**(e) Property, plant and equipment**

***Recognition and measurement***

Items of property, plant and equipment are measured at cost less accumulated depreciation (see below) and impairment losses (see Note 3(j)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, any other cost directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets and acquired assets includes:

(i) the initial estimate at the time of installation and during the period of use, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located; and

(ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Mining property and development assets include costs transferred from exploration and evaluation assets once feasibility and commercial viability of an area of interest are demonstrable and subsequent costs to develop the mine to the production phase.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(e) Property, plant and equipment (continued)**

***Subsequent costs***

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

***Depreciation***

Freehold land is not depreciated. Assets that have limited useful lives are depreciated using the straight line method over their estimated useful lives, taking into account estimated residual values, with the exception of mining property and development assets. Mining property and development assets are depreciated on a units of production basis over the life of the economically recoverable reserves, being 58,053,600 (2006: 61,327,267) tonnes for the Coppabella Mine and 16,529,033 (2006: 20,458,515) tonnes for the Moorvale Mine at the beginning of the financial year, or over the estimated useful life of the asset.

Leased assets are depreciated over the shorter of the lease term and their useful lives.

Assets are depreciated from the date they are available for use.

Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed, except to the extent that it is included in the carrying amount of another asset (e.g. inventory stocks) as an allocation of production overheads.

The depreciation rates or useful lives used for each class of asset are as follows:

| | **2007** | **2006** |
|---|---|---|
| *Property, plant and equipment* | | |
| Mining property and development | 5 — 13 years | 6 — 14 years |
| Buildings and infrastructure | 6.5% — 40% | 6.5% — 40% |
| Plant and equipment | 13% — 40% | 13% — 40% |
| Leased assets | 20% | — |

Useful lives and residual values are re-assessed at the reporting date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(e) Property, plant and equipment (continued)**

***Development costs***

Development costs related to an area of interest are capitalised if the expenditures are expected to be recouped through sale or successful exploitation of the area of interest. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses (see Note 3(j)), and is included in Property, plant and equipment — Mining property and development (see above).

**(f) Exploration and evaluation expenditure**

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets separately for each area of interest. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see Note 3(j)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Overburden in advance**

Expenditure incurred in the removal of overburden from coal deposits is deferred and expensed in operating expenditure as the coal is extracted. Overburden in advance is measured at the lower of cost and net realisable value. The balance of the amount deferred is reviewed at each reporting date to determine the amount (if any) which is no longer recoverable out of future revenue. Any amounts so determined are impaired (see Note 3(j)).

**(h) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and the leased assets are not recognised on the Group's balance sheet.

The Group adopted Interpretation 4 *Determining whether an Arrangement Contains a Lease*, which is mandatory for annual periods beginning on or after 1 January 2006, in its 2006 consolidated financial statements.

**(i) Inventories**

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is allocated on a monthly first-in first-out basis and includes direct material, consumption of overburden in advance, coal mining, coal processing, labour, related transportation costs to the point of sale and other fixed and variable overhead costs directly related to mining activities. The site overheads and rehabilitation cost component of inventory is allocated using normal operating capacity. Depreciation is allocated to inventories on a units-of-production basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(j) Impairment**

***Financial assets***

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-forsale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

***Non-financial assets***

The carrying amounts of the Group's non-financial assets, other than inventories (see Note 3(i)), overburden in advance (see Note 3(g)) and deferred tax assets (see Note 3(q)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(j) Impairment (continued)**

***Non-financial assets* (continued)**

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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, net of depreciation or amortisation, if no impairment loss had been recognised.

**(k) Non-current assets held for sale**

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are re-measured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

**(l) Employee benefits**

***Defined contribution superannuation plans***

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement when they are due.

***Other long-term service benefits***

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating the terms of the Group's obligations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(l) Employee benefits (continued)**

***Termination benefits***

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate the employment before the normal retirement date.

***Short-term benefits***

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

A provision is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

***Share based payment transactions***

The fair value of shares granted under the employee share loan plan is recognised as an employee expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the shares. The fair value is measured at grant date and is measured using a binomial option-pricing model, taking into account the terms and conditions upon which the shares were granted.

Non-executive directors are entitled to 10,000 Company securities each year as part of their director's fees. The shares are purchased on the Australian Stock Exchange at the market value prevailing on the date of purchase. The provision of shares is not subject to performance conditions.

In the comparative period, non-executive directors were required to apply A$10,000 of their director's fees each year to purchase Company securities. The shares were purchased on the Australian Stock Exchange at the market value prevailing on the date of purchase. The provision of shares was not subject to performance conditions.

The fair value of shares granted to non-executive directors is recognised as an expense.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(l) Employee benefits (continued)**

***Share based payment transactions*** **(continued)**

*Employee loans*

The employee share loan plan allows eligible persons of the Group and approved contractors to acquire shares of the Company. Eligible persons include permanent full-time or part-time employees, eligible contractors, or an agent of the Company or a related body corporate. No up-front payment is required for the shares as the Company offers all eligible persons an interest-free, limited-recourse loan. Any dividends received on the allocated shares are applied to repay the loan balance.

Fixed regular loan repayments are also made to repay the loan balance. The shares are purchased on the Australian Stock Exchange at the market value prevailing on the date of purchase. The outstanding loan balance is recognised as a receivable at amortised cost less impairment losses (see Note 3(j)).

***Director and Executive Option Plan***

The Company established an Option Plan for the Board of Directors and key employees of the Company as a retention strategy at the time of the Initial Public Offering. All options have been exercised prior to their expiry date (4 July 2006) or have expired on the date the holder ceased to be a director or executive.

There were no voting rights attached to unissued ordinary shares. Voting rights were attached to unissued ordinary shares when the options were exercised.

**(m) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

***Rehabilitation and dismantling***

Provisions are made, when the areas are disturbed, for the estimated cost of rehabilitation relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated. Provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs per hectare to rehabilitate such areas, discounted to their present value based on expected future cashflows. The estimated cost of rehabilitation includes the current cost of re-contouring, topsoiling and revegetation employing legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) Provisions (continued)

***Rehabilitation and dismantling*** **(continued)**

Significant uncertainty exists as to the amount of rehabilitation obligations which will be incurred due to the impact of changes in environmental legislation.

Assumptions have been made as to the remaining life of existing sites based on studies conducted by independent technical advisors and on the basis of current environmental legislation.

*Infrastructure assets and dismantling*

The present value of rehabilitation and dismantling obligations is recognised on construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a non-current liability with a corresponding asset. At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates, and timing or amount of the costs to be incurred. Any changes in the liability are added or deducted from the related asset, other than the unwinding of the discount which is recognised as a finance cost in the income statement as it occurs.

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written-down to nil and the excess is recognised immediately in the income statement. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying amount is considered. Where there is an indication that the new carrying amount is not fully recoverable, an impairment test is performed with the write-down recognised in the income statement in the period in which it occurs.

*Non-infrastructure areas*

Rehabilitation obligations relating to non-infrastructure areas are discounted to their present value based on expected future cashflows. At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates, timing or amount of the costs to be incurred and areas to be rehabilitated. Any changes in the liability are recognised in the income statement as rehabilitation expense, other than the unwinding of the discount which is recognised as a finance cost.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(m) Provisions (continued)**

***Onerous contracts***

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

**(n) Revenue**

***Goods sold***

Revenue from the sale of coal is measured at the fair value of the consideration received or receivable, net of penalties, returns, discounts, allowances and hedging gains/losses. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods.

**(o) Expenses**

***Lease payments***

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

**(p) Financial income and expenses**

Financial income and expenses comprise interest payable on borrowings using the effective interest rate method, interest receivable on funds invested, amortisation of ancillary costs incurred in connection with arrangement of borrowings, unwinding of the discount on provisions, and gains and losses on hedging instruments that are recognised in the income statement (see Note 3(c)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(p) Financial income and expenses (continued)**

Borrowing costs are expensed as incurred, unless costs relate to a qualifying asset, and included in financial expenses using the effective interest method. Borrowing costs relating to a qualifying asset, being an asset that necessarily takes a substantial period to prepare for its intended use, are capitalised as part of the cost of the asset.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

**(q) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(q) Income tax (continued)**

***Tax consolidation***

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Macarthur Coal Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses, as a result of revised assessments of the probability of recovery are recognised by the head entity only.

***Nature of tax funding arrangements and tax sharing agreements***

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

The head entity recognises the assumed current tax amounts as current tax liabilities (assets), adding to its own current amounts, since they are also due to or from the same taxation authority. The current tax liabilities (assets) are equivalent to the tax balances generated by external transactions entered into by the tax-consolidated group. Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(q) Income tax (continued)**

***Nature of tax funding arrangements and tax sharing agreements* (continued)**

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

**(r) Segment reporting**

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

**(s) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Tax Office ('ATO') is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**(t) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(u) New standards and interpretations not yet adopted**

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report.

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require extensive additional disclosures with respect to the Group's financial instruments and share capital.

- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 *Financial Statements: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings Per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 Life *Insurance Contracts* arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the consolidated financial report.

- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting period beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Group as the standard is only concerned with disclosures.

- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 102 *Inventories*, AASB 107 *Cash Flow Statements*, AASB 119 *Employee Benefits*, AASB 127 *Consolidated and Separate Financial Statements*, AASB 134 *Interim Financial Reporting*, AASB 136 *Impairment Assets*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments*. This standard is only expected to impact disclosures contained within the financial report.

- AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*. AASB 2207-4 is applicable for annual reporting periods beginning on or after 1 July 2007. The potential effect on the Group has not yet been determined.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(u) New standards and interpretations not yet adopted (continued)**

- Interpretation 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the Group's 2008 financial statements, and will apply to goodwill, investments in equity instruments and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of AASB 136 and AASB 139 respectively (i.e., 1 July 2004 and 1 July 2005, respectively). The adoption of Interpretation 10 is not expected to have an impact on the financial results of the Company and the Group.

- Interpretation 11 AASB 2 *Share-based Payment — Group and Treasury Share Transactions* addresses the classifications of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another group entity are transferred, in the financial statements of the entity receiving the services. Interpretation 11 is not expected to have any impact on the financial report. The potential effect of the Interpretation on the Company's financial report has not yet been determined.

- AASB 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation 11 amends AASB 2 *Share-based Payments* to insert the transitional provisions of IFRS 2, previously contained in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the consolidated financial report. The potential impact on the Company has not yet been determined.

- AASB 2007-2 Amendments to Australian Accounting Standards also amends references to "UIG Interpretation" to interpretations. This amending standard is applicable to annual reporting periods ending on or after 28 February 2007.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

### 4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**Property, plant and equipment**

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant and equipment is based on the quoted market prices for similar items.

**Investments in equity securities**

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

**Trade and other receivables**

The fair value of trade and other receivables/payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**Loans and borrowings**

Fair value, which is determined for disclosure purposes, is calculated based on discounted expected future principal and interest cash flows for finance leases. The market rate of interest is determined by reference to similar lease agreements.

**Derivatives**

Foreign currency derivative contracts are either marked to market using listed market prices or by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

### 4. DETERMINATION OF FAIR VALUES (continued)

**Share-based payment transactions**

The fair value of shares granted under the employee share loan plan is measured using a binomial option-pricing model, taking into account the terms and conditions upon which the shares were granted. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

**Financial guarantees**

For financial guarantee contract liabilities, the fair value at initial recognition is determined using a probability weighted discounted cash flow approach. This method takes into account the probability of default by the guaranteed party over the term of the contract, the loss given default (being the proportion of the exposure that is not expected to be recovered in the event of default) and exposure at default (being the maximum loss at the time of default).

### 5. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

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 comprise mainly income-earning assets and revenue, interest-bearing loans, 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.

All segments are continuing operations.

***Business segments***

The Group comprises the following main business segments:

| | |
|---|---|
| Operating coal mines: | Coppabella and Moorvale mines |
| Exploration and evaluation: | Various tenements in the exploration and evaluation phase |
| Other: | Corporate and other business development activities |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

**5. SEGMENT REPORTING (continued)**

***Geographical segments***

The Group operates predominately in Australia. All segment assets from ordinary activities relate to operations in Australia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of assets.

| Business segments | Operating coal mines | Exploration and evaluation | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| **30 June 2007** | | | | | |
| Total external sales revenue | 362,796 | — | — | — | 362,796 |
| Inter-segment revenue | — | — | — | — | — |
| Total segment revenue | 362,796 | — | — | — | 362,796 |
| Segment result | 93,478 | 9,980 | (21,486) | — | 81,972 |
| Unallocated expenses | | | | | — |
| Results from operating activities | | | | | 81,972 |
| Net financing income | | | | | 12,733 |
| Income tax expense | | | | | (28,161) |
| **Profit for the period** | | | | | 66,544 |
| Segment assets | 496,686 | 182,409 | 300,033 | (366,480) | 612,648 |
| Segment liabilities | 272,404 | 175,801 | 116,113 | (366,480) | 197,838 |
| Cash flows from operating activities | 95,729 | — | (65,599) | — | 30,130 |
| Cash flows from investing activities | (16,076) | (825) | (23,919) | — | (40,820) |
| Cash flows from financing activities | (6,877) | (131) | (54,340) | — | (61,348) |
| Assets classified as held for sale | — | 33,779 | — | — | 33,779 |
| Capital expenditure | 30,754 | 7,505 | 209 | — | 38,468 |
| Impairment loss reversals | (91) | — | — | — | (91) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

5. **SEGMENT REPORTING (continued)**

***Geographical segments* (continued)**

| **Business segments** | **Operating coal mines** | **Exploration and evaluation** | **Other** | **Eliminations** | **Consolidated** |
|---|---|---|---|---|---|
| | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| **30 June 2006** | | | | | |
| Total external sales revenue | 534,755 | — | — | — | 534,755 |
| Inter-segment revenue | — | — | — | — | — |
| Total segment revenue | 534,755 | — | — | — | 534,755 |
| Segment result | 225,715 | (530) | (13,595) | — | 211,590 |
| Unallocated expenses | | | | | — |
| Results from operating activities | | | | | 211,590 |
| Net financing income | | | | | 2,455 |
| Income tax expense | | | | | (64,456) |
| **Profit for the period** | | | | | 149,589 |
| Segment assets | 455,947 | 167,830 | 272,365 | (304,026) | 592,116 |
| Segment liabilities | 249,995 | 157,113 | 97,861 | (304,026) | 200,943 |
| Cash flows from operating activities | 247,132 | — | (45,641) | — | 201,491 |
| Cash flows from investing activities | 44,564 | (6,729) | (744) | — | 37,091 |
| Cash flows from financing activities | (25,135) | (1,472) | (61,510) | — | (88,117) |
| Capital expenditure | 7,277 | 54,419 | 755 | — | 62,451 |
| Impairment losses | 91 | — | — | — | 91 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**5. SEGMENT REPORTING (continued)**

***Geographical segments* (continued)**

| **Geographical segments** | **Asia** | **Europe** | **Americas** | **Other regions** | **Consolidated** |
|---|---|---|---|---|---|
| | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| **30 June 2007** | | | | | |
| Revenue from external customers | 156,747 | 122,421 | 74,477 | 9,151 | 362,796 |
| Segment assets | — | — | — | 612,648 | 612,648 |
| Capital expenditure | — | — | — | 38,468 | 38,468 |
| **30 June 2006** | | | | | |
| Revenue from external customers | 260,288 | 190,805 | 62,403 | 21,259 | 534,755 |
| Segment assets | — | — | — | 592,116 | 592,116 |
| Capital expenditure | — | — | — | 62,451 | 62,451 |

**6. OTHER INCOME**

| | **Consolidated** | | **Company** | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Management fee — related parties | 234 | 296 | 4,114 | 3,358 |
| Dividends — related parties | — | — | 54,340 | 61,488 |
| Net foreign exchange gains | — | 1,953 | — | — |
| Net gain on disposal of non-current assets | 13,154 | — | — | — |
| Sundry — other parties | 1,364 | 214 | — | 98 |
| | 14,752 | 2,463 | 58,454 | 64,944 |

During the year ended 30 June 2007, the Group sold a 16.7% interest in the Olive Downs North project and a 26.7% interest in the undeveloped Moorvale Pits C&D to partners in the Coppabella and Moorvale Joint Venture for A$16,870,000 in cash.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

### 7. OTHER EXPENSES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Net foreign exchange losses | 2,137 | — | — | — |
| Exploration and evaluation expensed as incurred | 916 | 387 | — | — |
| Increase in rehabilitation provision | 663 | 527 | — | — |
| Depreciation | (203) | (242) | 139 | 61 |
| (Reversal)/recognition of impairment loss on receivables | (91) | 91 | — | — |
| Net loss on disposal of non-current assets | 1,076 | 130 | — | 23 |
| | 4,498 | 893 | 139 | 84 |

### 8. PERSONNEL EXPENSES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Wages and salaries | 4,447 | 4,605 | 2,243 | 3,284 |
| Other associated personnel expenses | (47) | 567 | 1,340 | 634 |
| Contributions to defined contribution superannuation funds | 385 | 603 | 385 | 603 |
| Increase in liability for annual leave | 1,231 | 262 | 35 | 194 |
| (Decrease)/increase in liability for long-service leave | (73) | 163 | (73) | 163 |
| Increase in liability for sick leave | 191 | — | — | — |
| Termination benefits | 235 | — | 235 | — |
| Equity-settled share-based payment transactions | — | 308 | — | 308 |
| | 6,369 | 6,508 | 4,165 | 5,186 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**9. AUDITORS' REMUNERATION**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$ | A$0 | A$ | A$ |
| **Audit services** | | | | |
| Auditors of the Company — KPMG | | | | |
| • Audit and review of financial reports (A) (F) | 189,000 | 176,750 | 189,000 | 176,750 |
| • Audit of joint venture operations (C) | 138,904 | 87,159 | — | — |
| | 327,904 | 263,909 | 189,000 | 176,750 |
| **Other services** | | | | |
| Auditors of the Company — KPMG | | | | |
| • Other assurance services (A) (B) | 12,000 | 63,290 | 12,000 | 63,290 |
| • Corporate governance services | 30,245 | — | 30,245 | — |
| • Taxation services (A) | 72,335 | 54,605 | 72,335 | 54,605 |
| • Joint venture operations (C) | | | | |
| — Other services (D) | 10,379 | 16,969 | — | — |
| KPMG related practices | | | | |
| • Other (E) | 27,107 | 30,273 | 27,107 | 30,273 |
| | 152,066 | 165,137 | 141,687 | 148,168 |

(A) All auditors' remuneration is borne by the Company for the Group.

(B) Represents advice in relation to accounting and AIFRS.

(C) Represents the Group's share of remuneration paid for audit and other services incurred by joint ventures.

(D) Represents tax advice.

(E) Represents license and other fees paid to a related entity, of which KPMG holds a 50% interest, for purchase of tax compliance software by the Group.

(F) 2006 includes audit relating to transition to AIFRS and restated comparative financial information.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

### 10. FINANCIAL INCOME AND EXPENSES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Interest income | (9,055) | (7,644) | (14,830) | (8,694) |
| Net gain on disposal of available-for-sale financial assets transferred from equity | (7,973) | — | (7,973) | — |
| Financial income | (17,028) | (7,644) | (22,803) | (8,694) |
| Interest expense | 4,295 | 5,189 | 4,491 | 1,704 |
| Financial expenses | 4,295 | 5,189 | 4,491 | 1,704 |
| Net financing income | (12,733) | (2,455) | (18,312) | (6,990) |

### 11. INCOME TAX EXPENSE

#### (a) Recognised in the income statement

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current tax expense** | | | | |
| Current period | 21,580 | 55,851 | 4,509 | (219) |
| Adjustments for prior periods | (2,332) | 27 | 270 | 27 |
| | 19,248 | 55,878 | 4,779 | (192) |
| **Deferred tax expense** | | | | |
| Origination and reversal of temporary differences | 8,913 | 8,578 | (631) | 137 |
| | 8,913 | 8,578 | (631) | 137 |
| Total income tax expense/(benefit) from continuing operations | 28,161 | 64,456 | 4,148 | (55) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

### 11. INCOME TAX EXPENSE (continued)

#### (b) Numerical reconciliation between tax expense and pre-tax net profit

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Profit for the period — continuing operations | 66,544 | 149,589 | 63,684 | 61,225 |
| Total income tax expense/(benefit) | 28,161 | 64,456 | 4,148 | (55) |
| Profit excluding income tax | 94,705 | 214,045 | 67,832 | 61,170 |
| Income tax using the domestic corporation tax rate of 30% (2006: 30%) | 28,411 | 64,213 | 20,350 | 18,351 |
| Increase in income tax expense due to: | | | | |
| • Non-deductible expenses | 213 | 2,310 | 8 | 13 |
| Decrease in income tax expense due to: | | | | |
| • Tax exempt income | (555) | (2,094) | (16,302) | (18,446) |
| | 28,069 | 64,429 | 4,056 | (82) |
| Under/(over) provided in prior years | 92 | 27 | 92 | 27 |
| | 28,161 | 64,456 | 4,148 | (55) |

#### (c) Income tax recognised directly in equity

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Foreign currency derivative contracts | 5,263 | 305 | — | — |
| Available-for-sale financial assets — investments in equity securities | 430 | — | 430 | — |
| | 5,693 | 305 | 430 | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

### 12. TAX ASSETS AND LIABILITIES

***Current tax assets and liabilities***

The current tax liability for the Group of A$6,770,000 (2006: A$44,395,000) and for the Company of A$6,770,000 (2006: A$44,395,000) represent the amount of income taxes payable in respect of current and prior financial periods.

The Company liability includes the income tax payable by all members of the tax consolidated group.

***Recognised deferred tax assets and liabilities***

Deferred tax assets and liabilities are attributable to the following:

| | **Assets** | | **Liabilities** | | **Net** | |
|---|---|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** | **2007** | **2006** |
| **Consolidated** | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| Property, plant and equipment | — | — | 2,372 | 2,434 | 2,372 | 2,434 |
| Employee benefits | (546) | (198) | — | — | (546) | (198) |
| Inventories | — | (36) | 397 | — | 397 | (36) |
| Loans and borrowings | (2,873) | (3,215) | — | — | (2,873) | (3,215) |
| Provisions | (6,258) | (5,984) | — | — | (6,258) | (5,984) |
| Amounts payable for future user charges | (3,211) | (3,719) | — | — | (3,211) | (3,719) |
| Overburden in advance | — | — | 32,506 | 23,133 | 32,506 | 23,133 |
| Mining property and development | — | — | 17,248 | 19,091 | 17,248 | 19,091 |
| Exploration and evaluation | — | — | 22,632 | 17,354 | 22,632 | 17,354 |
| Other items | (12,135) | (7,466) | 6,809 | 941 | (5,326) | (6,525) |
| Tax loss carry-forwards | — | — | — | — | — | — |
| Tax (assets)/liabilities | (25,023) | (20,618) | 81,964 | 62,953 | 56,941 | 42,335 |
| Set off of tax | 25,023 | 20,618 | (25,023) | (20,618) | — | — |
| Net tax (assets)/liabilities | — | — | 56,941 | 42,335 | 56,941 | 42,335 |

| | **Assets** | | **Liabilities** | | **Net** | |
|---|---|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** | **2007** | **2006** |
| **Company** | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| Property, plant and equipment | — | — | 13 | 7 | 13 | 7 |
| Employee benefits | (167) | (178) | — | — | (167) | (178) |
| Provisions | (27) | (29) | — | — | (27) | (29) |
| Other items | (997) | (347) | 430 | — | (567) | (347) |
| Tax (assets)/liabilities | (1,191) | (554) | 443 | 7 | (748) | (547) |
| Set off of tax | 443 | 7 | (443) | (7) | — | — |
| Net tax (assets)/liabilities | (748) | (547) | — | — | (748) | (547) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

### 12. TAX ASSETS AND LIABILITIES (continued)

***Unrecognised deferred tax assets and liabilities***

All deferred tax assets and liabilities have been recognised by the Company and the Group.

Movement in temporary differences during the year

| | Consolidated | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance 1 July 06 | Recognised in income statement | Recognised in equity/ transfers | Balance 30 June 07 | Balance 1 July 06 | Recognised in income statement | Recognised in equity/ transfers | Balance 30 June 07 |
| | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| Property, plant and equipment | 2,434 | (62) | — | 2,372 | 7 | 6 | — | 13 |
| Inventories | (36) | 433 | — | 397 | — | — | — | — |
| Loans and borrowings | (3,215) | 342 | — | (2,873) | — | — | — | — |
| Employee benefits | (198) | (348) | — | (546) | (178) | 11 | — | (167) |
| Provisions | (5,984) | (274) | — | (6,258) | (29) | 2 | — | (27) |
| Amounts payable for future user charges | (3,719) | 508 | — | (3,211) | — | — | — | — |
| Overburden in advance | 23,133 | 9,373 | — | 32,506 | — | — | — | — |
| Mining property and development | 19,091 | (1,843) | — | 17,248 | — | — | — | — |
| Exploration and evaluation | 17,354 | 5,278 | — | 22,632 | — | — | — | — |
| Other items | (6,525) | (4,494) | 5,693 | (5,326) | (347) | (650) | 430 | (567) |
| | 42,335 | 8,913 | 5,693 | 56,941 | (547) | (631) | 430 | (748) |

| | Balance 1 July 05 | Recognised in income statement | Recognised in equity/ transfers | Balance 30 June 06 | Balance 1 July 05 | Recognised in income statement | Recognised in equity/ transfers | Balance 30 June 06 |
|---|---|---|---|---|---|---|---|---|
| | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| Property, plant and equipment | 2,629 | (195) | — | 2,434 | 3 | 4 | — | 7 |
| Inventories | 409 | (445) | — | (36) | — | — | — | — |
| Loans and borrowings | (3,517) | 302 | — | (3,215) | — | — | — | — |
| Employee benefits | (71) | (79) | (48) | (198) | (71) | (87) | (20) | (178) |
| Provisions | (3,922) | (2,062) | — | (5,984) | — | (29) | — | (29) |
| Amounts payable for future user charges | (4,199) | 480 | — | (3,719) | — | — | — | — |
| Overburden in advance | 15,984 | 7,149 | — | 23,133 | — | — | — | — |
| Mining property and development | 20,913 | (1,822) | — | 19,091 | — | — | — | — |
| Exploration and evaluation | 6,978 | 10,376 | — | 17,354 | — | — | — | — |
| Other items | 78 | (6,752) | 149 | (6,525) | (596) | 249 | — | (347) |
| Tax loss carry-forwards | (1,626) | 1,626 | — | — | — | — | — | — |
| | 33,656 | 8,578 | 101 | 42,335 | (664) | 137 | (20) | (547) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

### 13. EARNINGS PER SHARE

**Basic earnings per share**

The calculation of basic earnings per share at 30 June 2007 was based on the profit attributable to ordinary shareholders of A$66,544,000 (2006: A$149,589,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2007 of 187,380,346 (2006: 179,603,247), calculated as follows:

***Profit attributable to ordinary shareholders***

| | Consolidated | |
|---|---|---|
| | **2007** | **2006** |
| | A$'000 | A$'000 |
| Profit attributable to ordinary shareholders | 66,544 | 149,589 |

**Weighted average number of ordinary shares**

| | Consolidated | |
|---|---|---|
| | **2007** | **2006** |
| Issued ordinary shares at 1 July | 187,380,346 | 172,824,327 |
| Effect of shares issued on exercise of options | — | 76,758 |
| Effect of shares issued conversion of convertible notes | — | 2,106,564 |
| Effect of shares issued in December 2006 | — | 4,104,894 |
| Effect of shares issued in May 2006 | — | 490,704 |
| Weighted average number of ordinary shares at 30 June | 187,380,346 | 179,603,247 |

**Diluted earnings per share**

The calculation of diluted earnings per share at 30 June 2007 was based on profit attributable to ordinary shareholders of A$66,544,000 (2006: A$149,589,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2007 of 187,380,346 (2006: 179,703,275), calculated as follows:

***Profit attributable to ordinary shareholders (diluted)***

| | Consolidated | |
|---|---|---|
| | **2007** | **2006** |
| | A$'000 | A$'000 |
| Net profit attributable to ordinary shareholders (diluted) | 66,544 | 149,589 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

**13. EARNINGS PER SHARE (continued)**

**Diluted earnings per share (continued)**

***Weighted average number of ordinary shares (diluted)***

| | Consolidated | |
|---|---|---|
| | **2007** | **2006** |
| Weighted average number of ordinary shares at 1 July | 187,380,346 | 179,603,247 |
| Effect of share options on issue | — | 100,028 |
| Weighted average number of ordinary shares (diluted) at 30 June | 187,380,346 | 179,703,275 |

**14. CASH AND CASH EQUIVALENTS**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Cash at bank and in hand | 9,016 | 4,330 | 4,985 | 2,376 |
| Bank at call deposits | 8,277 | 35,777 | 964 | 8,165 |
| Bank term deposits | 79,272 | 128,496 | 16,015 | 7,497 |
| Cash and cash equivalents in the statement of cash flows | 96,565 | 168,603 | 21,964 | 18,038 |

The effective interest rate on bank at call deposits was 5.9% (2006: 5.8%). The effective interest rate on bank term deposits was 6.2% (2006: 5.5%). The deposits had an average maturity of 55 days (2006: 43 days). Included in bank term deposits is A$6,034,000 (2006: A$Nil) which is restricted for use by the Group as such is held as security against bank guarantees provided (refer Note 31).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

### 15. TRADE AND OTHER RECEIVABLES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Trade receivables | 5,509 | 32,659 | — | — |
| Other receivables and prepayments | 14,265 | 10,334 | 2,274 | 328 |
| Tax related receivables | — | — | 85,391 | 70,560 |
| Amounts receivable from associates and related entities — unsecured | 15,916 | 9,669 | 1,121 | 458 |
| | 35,690 | 52,662 | 88,786 | 71,346 |
| **Non-current** | | | | |
| Security deposits | 144 | 118 | — | — |
| Other receivables and prepayments | 3,055 | 3,977 | — | — |
| Loans to employees — Employee Share Plan | 324 | 508 | 324 | 508 |
| Amounts receivable from controlled entities — unsecured | — | — | 158,227 | 184,791 |
| | 3,523 | 4,603 | 158,551 | 185,299 |

Current receivables due from associates and related entities — unsecured are shown net of reversal of impairment losses of A$91,000 (2006: A$91,000 impairment loss) recognised in the current year. Non-current receivables due from associates and related entities — unsecured are shown net of impairment losses of A$Nil (2006: A$Nil) recognised in the current year.

### 16. INVENTORIES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Raw materials and consumables, at cost | 2,069 | — | — | — |
| Coal stocks, at the lower of cost and net realisable value | 26,558 | 15,412 | — | — |
| | 28,627 | 15,412 | — | — |

Refer Note 23 for details of security over inventories.

Raw materials, consumables and changes in coal stocks recognised as cost of sales amounted to A$147,220,000 (2006: A$189,277,000). In 2007 the write-down of inventories to net realisable value amounted to A$2,718,000 (2006: A$Nil). The write-downs are included in cost of sales.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 30 JUNE 2007*

### 17. OTHER FINANCIAL ASSETS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Cash and deposits — not at call | 6,020 | 6,099 | — | — |
| Available-for -sale financial assets | | | | |
| — investments in equity securities | 33,115 | — | 33,115 | — |
| Foreign currency derivative contracts | 18,560 | 2,711 | — | — |
| | 57,695 | 8,810 | 33,115 | — |
| **Non-current** | | | | |
| Investments in controlled entities — at cost | — | — | 73,343 | 73,343 |
| Foreign currency derivative contracts | — | — | — | — |
| | — | — | 73,343 | 73,343 |

Available-for-sale financial assets — investments in equity securities are investments in listed companies. These shares were acquired by the Group during the year at a cost of A$31,682,000. As at 30 June 2007 the fair value of these shares was A$33,115,000 resulting in a fair value reserve of A$1,003,000 (after tax). The shares were sold subsequent to year end (refer Note 38).

### 18. OVERBURDEN IN ADVANCE

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Overburden in advance | 105,552 | 74,206 | — | — |
| **Non-current** | | | | |
| Overburden in advance | 2,765 | 2,904 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 19. ASSETS CLASSIFIED AS HELD FOR SALE

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Assets held by controlled entities | 33,779 | — | — | — |

The Company intends to dispose of two wholly owned subsidiaries, Monto Coal Pty Ltd and Monto Coal 2 Pty Ltd. Refer Note 26. The cost of these shares held by the Company is A$101. The assets of Monto Coal Pty Ltd and Monto Coal 2 Pty Ltd are presented as a disposal group held for sale. As at 30 June 2007 the disposal group comprised net assets of A$33,779,000.

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | **2007** | **2006** | **2007** | **2006** |
| | Note | A$'000 | A$'000 | A$'000 | A$'000 |
| Cash and cash equivalents | | 328 | — | — | — |
| Trade and other receivables | | 14 | — | — | — |
| Other financial assets | | 14 | — | — | — |
| Freehold land | 20 | 1,228 | — | — | — |
| Exploration and evaluation assets | 21 | 32,295 | — | — | — |
| Trade and other payables | | (100) | — | — | — |
| | | 33,779 | — | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 20. PROPERTY, PLANT AND EQUIPMENT

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Mining property and development (including mining rights and coal resources) | | | | |
| At cost | 143,545 | 141,620 | — | — |
| Less accumulated depreciation | (42,047) | (34,230) | — | — |
| | 101,498 | 107,390 | — | — |
| Freehold land | | | | |
| At cost | 3,730 | 4,958 | — | — |
| Buildings and infrastructure | | | | |
| At cost | 74,829 | 72,856 | — | — |
| Less accumulated depreciation | (29,036) | (21,867) | — | — |
| | 45,793 | 50,989 | — | — |
| Plant and equipment | | | | |
| At cost | 4,705 | 3,949 | 1,139 | 932 |
| Less accumulated depreciation | (1,341) | (912) | (273) | (134) |
| | 3,364 | 3,037 | 866 | 798 |
| Leased assets | | | | |
| At cost | 8,544 | — | — | — |
| Less accumulated depreciation | (854) | — | — | — |
| | 7,690 | — | — | — |
| Spare parts | | | | |
| At cost | 4,678 | — | — | — |
| Capital works in progress | | | | |
| At cost | 15,396 | 3,733 | — | — |
| | 182,149 | 170,107 | 866 | 798 |

Refer to Note 23 for details of security over property, plant and equipment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**20. PROPERTY, PLANT AND EQUIPMENT (continued)**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Reconciliations** | | | | |
| Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below: | | | | |
| • Mining property and development | | | | |
| Carrying amount at beginning of year | 107,390 | 113,937 | — | — |
| o Additions, including acquisitions through acquisition of interest in joint venture | 1,925 | 1,251 | — | — |
| o Disposals | — | — | — | — |
| o Depreciation | (7,817) | (7,798) | — | — |
| Carrying amount at end of year | 101,498 | 107,390 | — | — |
| • Freehold land | | | | |
| Carrying amount at beginning of year | 4,958 | 4,953 | — | — |
| o Additions | — | 5 | — | — |
| o Transfers to assets classified as held for sale | (1,228) | — | — | — |
| Carrying amount at end of year | 3,730 | 4,958 | — | — |
| • Buildings and infrastructure | | | | |
| Carrying amount at beginning of year | 50,989 | 53,110 | — | — |
| o Additions, including acquisitions through acquisition of interest in joint venture | 818 | 1,540 | — | — |
| o Transfer from capital works in progress | 1,158 | 3,894 | — | — |
| o Disposals | — | (377) | — | — |
| o Depreciation | (7,172) | (7,178) | — | — |
| Carrying amount at end of year | 45,793 | 50,989 | — | — |
| • Plant and equipment | | | | |
| Carrying amount at beginning of year | 3,037 | 1,436 | 798 | 138 |
| o Additions, including acquisitions through acquisition of interest in joint venture | 836 | 485 | 209 | 744 |
| o Transfer from capital works in progress | 58 | 1,581 | — | — |
| o Disposals | (81) | (132) | (2) | (23) |
| o Depreciation | (486) | (333) | (139) | (61) |
| Carrying amount at end of year | 3,364 | 3,037 | 866 | 798 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 20. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Reconciliations (continued)** | | | | |
| • Leased assets | | | | |
| Carrying amount at beginning of year | — | — | — | — |
| o Additions, including acquisitions through acquisition of interest in joint venture | 9,827 | — | — | — |
| o Disposals | (1,283) | — | — | — |
| o Depreciation | (854) | — | — | — |
| Carrying amount at end of year | 7,690 | — | — | — |
| • Spare parts | | | | |
| Carrying amount at beginning of year | — | — | — | — |
| o Additions, including acquisitions through acquisition of interest in joint venture | 4,678 | — | — | — |
| Carrying amount at end of year | 4,678 | — | — | — |
| • Capital works in progress | | | | |
| Carrying amount at beginning of year | 3,733 | 4,457 | — | — |
| o Additions, including acquisitions through acquisition of interest in joint venture | 12,879 | 4,751 | — | — |
| o Transfers to property, plant and equipment | (1,216) | (5,475) | — | — |
| Carrying amount at end of year | 15,396 | 3,733 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 20. PROPERTY, PLANT AND EQUIPMENT (continued)

The following depreciation was recognised as an expense in the income statement:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Mining property and development | 7,637 | 8,759 | — | — |
| Buildings and infrastructure | 7,185 | 6,919 | — | — |
| Plant and equipment | 486 | 333 | 139 | 61 |
| Leased assets | 854 | — | — | — |
| | 16,162 | 16,011 | 139 | 61 |

**Leased assets**

The Group leases production equipment under a number of finance lease agreements. Some leases provide the Group with the option to purchase the equipment. The leased equipment secures lease obligations (refer Note 23). At 30 June 2007, the net carrying amount of leased assets was A$7,690,000 (2006: A$Nil).

### 21. EXPLORATION AND EVALUATION ASSETS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Costs carried forward in respect of areas of interest in: | | | | |
| • Exploration and/or evaluation — intangible | 66,303 | 94,809 | — | — |
| | 66,303 | 94,809 | — | — |
| **Cost** | | | | |
| Balance at beginning of year | 94,809 | 40,390 | — | — |
| Acquisitions of exploration and evaluation assets | — | 48,653 | — | — |
| Transfers to assets classified as held for sale | (32,295) | — | — | — |
| Disposals of exploration and evaluation assets | (3,716) | — | — | — |
| Exploration and evaluation costs capitalised | 7,505 | 5,766 | — | — |
| Balance at end of year | 66,303 | 94,809 | — | — |

The ultimate recoupment of costs carried forward as exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 22. TRADE AND OTHER PAYABLES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Trade payables | 4,908 | 1,633 | 241 | 228 |
| Other payables and accrued expenses | 75,365 | 66,905 | 671 | 909 |
| Amounts payable to associates | 1,143 | — | 1,143 | — |
| | 81,416 | 68,538 | 2,055 | 1,137 |
| **Non-current** | | | | |
| Amounts payable to controlled entities — unsecured | — | — | 104,907 | 52,499 |

### 23. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Company's and the Group's interest-bearing loans and borrowings. For more information about the Company's and the Group's exposure to interest rate and foreign currency risk, see Note 28.

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current liabilities** | | | | |
| Finance lease liabilities | 1,451 | — | — | — |
| Deferred liability for acquisition of mining interest — unsecured | 1,925 | 1,931 | — | — |
| | 3,376 | 1,931 | — | — |
| **Non-current liabilities** | | | | |
| Finance lease liabilities | 6,301 | — | — | — |
| Deferred liability for acquisition of mining interest — unsecured | 7,652 | 8,785 | — | — |
| | 13,953 | 8,785 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 23. LOANS AND BORROWINGS (continued)

**Deferred liability for acquisition of mining interest — unsecured**

In December 2003 the Group purchased an additional 23.3% interest in the Coppabella Project. As part of the acquisition, the Group entered into an arrangement to progressively purchase the 23.3% interest in the exploration tenements each six months, over a 10 year period. In accordance with Australian Accounting Standards the deferred liability has been reflected at its present value in the financial statements, discounted at 10.7% (2006: 10.2%) based on 6% interest plus risk adjusted margin.

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Financing facilities** | | | | |
| Bank loans — Corporate Facility | | | | |
| • Amortising cash advance facility (2007: US$18,000,000 and 2006: US$24,000,000) | 21,209 | 32,288 | — | — |
| • Revolving cash advance facility (US$20,000,000) | 23,565 | 26,907 | — | — |
| Bank Guarantee Facility | 60,000 | 60,000 | — | — |
| | 104,774 | 119,195 | — | — |
| **Facilities utilised at reporting date** | | | | |
| Bank loans — Corporate Facility | | | | |
| • Amortising cash advance facility | — | — | — | — |
| • Revolving cash advance facility | — | — | — | — |
| Bank Guarantee Facility | 59,835 | 57,787 | — | — |
| | 59,835 | 57,787 | — | — |
| **Facilities not utilised at reporting date** | | | | |
| Bank loans — Corporate Facility | | | | |
| • Amortising cash advance facility (2007: US$18,000,000 and 2006: US$24,000,000) | 21,209 | 32,288 | — | — |
| • Revolving cash advance facility (US$20,000,000) | 23,565 | 26,907 | — | — |
| Bank Guarantee Facility | 165 | 2,213 | — | — |
| | 44,939 | 61,408 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**23. LOANS AND BORROWINGS (continued)**

**Corporate Facility**

***Bank Loans***

During the year ended 30 June 2007 the Group continued to hold the Corporate Facility established in the previous financial year.

The purpose of the Corporate Facility is to provide additional funds for general corporate purposes within the Group. The facility is held by a controlled entity, Coppabella Coal Pty Ltd. Bank loans provided as part of the Corporate Facility are:

1) Cash advance facility

a) Amortising cash advance facility

The facility limit is denominated in United States dollars as US$30,000,000 (2006: US$30,000,000) and is to be amortised on a straight line basis to 30 June 2010. A$Nil (US$Nil) has been drawn down at 30 June 2007 and 30 June 2006. The facility can be drawn in Australian dollars or United States dollars. The amortised facility limit at 30 June 2007 is US$18,000,000 (2006: US$24,000,000). A commitment fee of 0.45% (2006: 0.45%) per annum is payable on the unused portion of the amortising cash advance facility.

The interest rate applicable to the cash advance facility comprises LIBOR plus a minimum margin of 0.95% per annum. The effective interest rate was 6.31% per annum at 30 June 2007 (2006: 6.46%).

b) Revolving cash advance facility

The revolving cash advance facility loan limit is denominated in United States dollars as US$20,000,000 (2006: US$ 20,000,000). A$Nil (US$Nil) has been drawn down at 30 June 2007 and 30 June 2006. The facility is in place until 30 June 2010. The facility can be drawn down in Australian dollars or United States dollars. A commitment fee of 0.45% (2006: 0.45%) per annum is payable on the unused portion of the revolving cash advance facility.

The interest rate applicable to the cash advance facility comprises LIBOR plus a minimum margin of 0.95% per annum. The effective interest rate was 6.31% per annum at 30 June 2007 (2006: 6.46%).

2) Bank guarantee facility

The bank guarantee facility is denominated in Australian dollars as an A$60,000,000 (2006: A$60,000,000) limit amortising to A$Nil (2006: A$Nil) at maturity 30 June 2010. The facility can be drawn in Australian dollars, incorporating a sub-limit of the equivalent of A$4,000,000 (2006: A$4,000,000) which can be drawn in United States dollars. Bank guarantee fees are payable at 0.55% per annum and a fee of 0.22% per annum applies to the unused portion of the bank guarantee facility.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**23. LOANS AND BORROWINGS (continued)**

**Corporate Facility (continued)**

***Bank Loans (continued)***

*Security*

The Corporate Facility is secured by a guarantee provided by Macarthur Coal Limited and charges over the Group's interest in the Coppabella and Moorvale Joint Venture including all of the assets and undertakings of the controlled entity, Coppabella Coal Pty Ltd and charges over the assets and undertakings of the controlled entity, Macarthur Coal Management Pty Ltd and the Company's shares in Coppabella Coal Pty Ltd and Macarthur Coal Management Pty Ltd and intercompany loans to the controlled entities.

**Assets pledged under security arrangements**

The carrying amount of the pledged non-current assets are as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| Mining property and development | 101,498 | 107,390 | — | — |
| Land | 3,730 | 3,730 | — | — |
| Buildings and infrastructure | 45,793 | 50,989 | — | — |
| Plant and equipment | 2,469 | 2,203 | — | — |
| Leased assets (refer below) | 7,690 | — | — | — |
| Spare parts | 4,678 | — | — | — |
| Capital works in progress | 15,396 | 3,733 | — | — |
| Receivables | 2,963 | 6,039 | — | — |
| Overburden in advance | 2,765 | 2,904 | — | — |
| Shares in controlled entities | — | — | 56,385 | 56,385 |
| Amounts receivable from controlled entities | — | — | 506 | 42,400 |
| | 186,982 | 176,988 | 56,891 | 98,785 |

**Convertible notes**

| | | | | |
|---|---|---|---|---|
| Convertible notes on issue at 1 July | — | 5,627 | — | 5,627 |
| Nil conversions during the period (2006: 3,833,946) | — | (5,559) | — | (5,559) |
| Debt repaid to non-converting note holders | — | (68) | — | (68) |
| Carrying amount of liability at 30 June | — | — | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**23. LOANS AND BORROWINGS (continued)**

**Finance lease liabilities**

Finance lease liabilities of the Group are payable as follows:

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | **Minimum lease payments 2007** | **Interest 2007** | **Principal 2007** | **Minimum lease payments 2006** | **Interest 2006** | **Principal 2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 | A$'000 |
| Less than one year | 1,968 | 517 | 1,451 | — | — | — |
| Between one and five years | 6,822 | 939 | 5,883 | — | — | — |
| More than five years | 476 | 58 | 418 | — | — | — |
| | 9,266 | 1,514 | 7,752 | — | — | — |

The Company has no finance lease liabilities.

Certain leases provide for additional payments that are contingent upon usage limits being exceeded. Contingent rents recognised in the income statement under finance leases amounted to A$Nil (2006: A$Nil).

*Security*

The lease liabilities are secured by a fixed and floating charge provided by Macarthur Coal (C&M Equipment) Pty Ltd (MCCME), an associated entity. In addition, the Company provides guarantees to the extent of 73.3% of MCCME's obligations under finance and operating leasing arrangements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 24. EMPLOYEE BENEFITS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current liabilities** | | | | |
| Liability for annual leave | 1,500 | 460 | 427 | 392 |
| Liability for sick leave | 191 | — | — | — |
| Liability for long-service leave | 12 | 46 | 12 | 46 |
| | 1,703 | 506 | 439 | 438 |
| **Non-current liabilities** | | | | |
| Liability for long-service leave | 117 | 156 | 117 | 156 |

**Defined contribution superannuation funds**

The Group makes contributions to several defined contribution superannuation funds. The amount recognised as an expense was A$385,000 for the financial year ended 30 June 2007 (2006: A$603,000).

**Long service leave industry fund**

The Group makes contributions to the Coal Mining Industry Leave Fund. A total of A$149,000 was paid to the fund for the financial year ended 30 June 2007 (2006: A$Nil).

**Share-based payments**

***Executive Option Plan***

The Company had an executive option plan for key employees of the Company and Macarthur Coal (C&M Management) Pty Ltd, an associated entity.

There are no voting rights attached to unissued ordinary shares. Voting rights will be attached to unissued ordinary shares when the options have been exercised.

All options expired on the earlier of their expiry date or the date the holder ceases to be an executive or the date the holder is dismissed for misconduct or for reasons involving fraud.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**24. EMPLOYEE BENEFITS (continued)**

**Share-based payments (continued)**

***Executive Option Plan (continued)***

The number and weighted average exercise prices of share options are as follows:

| | Weighted average exercise price 2007 | Number of options 2007 | Weighted average exercise price 2006 | Number of options 2006 |
|---|---|---|---|---|
| Outstanding at the beginning of the period | — | — | A$1.38 | 110,000 |
| Exercised during the period | — | — | A$1.38 | (110,000) |
| Outstanding at the end of the period | — | — | — | — |
| Exercisable at the end of the period | | — | | — |

No options are outstanding at 30 June 2007.

During the financial year, no share options were exercised (2006: 110,000, fully paid). The weighted average share price at the date of exercise was A$Nil (2006: A$6.12).

***Employee Share Loan Plan***

The Company has an Employee Share Loan Plan (ESLP) which is used to provide an opportunity for eligible persons of the Group and approved contractors to acquire shares of the Company. On 15 December 2005, 122,935 shares were issued to 86 eligible employees at an issue price of A$5.43 per share with a value limit of between A$6,000 to A$20,000 per employee. There were no shares issued during the year.

All shares issued under the ESLP rank equally with all other shares for time being on issue.

The Company provides interest free loans to all eligible persons to enable them to acquire shares under ESLP to 100% of the total acquisition price for the shares. Any dividends declared on the shares issued under ESLP will be used to offset any loans outstanding on the shares. Employees and contractors have also provided irrevocable authority to the Company to deduct 1% of their gross salary each month in repayment of the loan.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 24. EMPLOYEE BENEFITS (continued)

**Share-based payments (continued)**

***Employee Share Loan Plan (continued)***

The loan will be repayable:

a) if default is made by the employee on the repayment of the loan; or

b) the employee's employment with the Company, its subsidiary or associate or the relevant contractor is terminate for any reason; or

c) the employee becomes insolvent or commits an act of bankruptcy.

The Company holds the shares as security over the loan until the loan is repaid.

The market price of shares issued under the ESLP as at 30 June 2007 was A$6.77 (2006: A$4.48).

There were no other shares eligible for issuance under the ESLP at 30 June 2007 (2006: Nil).

The number and weighted average exercise price of shares is as follows:

| | **Weighted average exercise price 2007** | **Number of shares 2007** | **Weighted average exercise price 2006** | **Number of shares 2006** |
|---|---|---|---|---|
| Outstanding at the beginning of the period | — | 106,005 | — | — |
| Granted during the period | — | — | A$5.43 | 122,935 |
| Sold during the period | A$4.21 | (16,563) | A$4.91 | (16,930) |
| Outstanding at the end of the period | | 89,442 | | 106,005 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**25. PROVISIONS**

| | **Rehabilitation and dismantling** | **Onerous contracts** | **Other** | **Total** |
|---|---|---|---|---|
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Consolidated** | | | | |
| Balance at 1 July 2006 | 17,886 | 1,881 | 177 | 19,944 |
| Provisions made during the year | 1,791 | — | — | 1,791 |
| Provisions used during the year | (169) | (1,881) | — | (2,050) |
| Unwind of discount | 1,191 | — | (17) | 1,174 |
| Balance at 30 June 2007 | 20,699 | — | 160 | 20,859 |
| Current | 1,030 | — | — | 1,030 |
| Non-current | 19,669 | — | 160 | 19,829 |
| | 20,699 | — | 160 | 20,859 |
| **The Company** | | | | |
| Balance at 1 July 2006 | — | — | 98 | 98 |
| Unwind of discount | — | — | (8) | (8) |
| Balance at 30 June 2007 | — | — | 90 | 90 |
| Current | — | — | — | — |
| Non-current | — | — | 90 | 90 |
| | — | — | 90 | 90 |

During the financial year ended 30 June 2007, A$169,000 was recognised as an expense in the income statement in respect of rehabilitation incurred (2006: A$622,000).

**Rehabilitation and dismantling**

In accordance with State Government legislative requirements, a provision has been recognised for mine rehabilitation works throughout the life of the mines in relation to the Group's coal mining operations. A provision for dismantling of infrastructure assets on cessation of operations at the mines has also been recognised in relation to the Group's coal mining operations. The basis for accounting is set out in Note 1(m).

**Onerous contracts**

In the prior financial year, Macarthur Coal (C&M Management) Pty Ltd, the manager for the Coppabella and Moorvale Joint Venture, entered into a contract with Queensland Rail for the transport of 625,000 tonnes of coal to Abbot Point for the period 1 March 2006 to 31 December 2006. The port contract at Abbot Point expired on 28 February 2006 and therefore there was no corresponding port contract during the period 1 March 2006 to 31 December 2006. The obligation under the Queensland Rail contract for the remaining period 1 July 2006 to 31 December 2006 was fully provided for in the prior financial year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 26. OTHER FINANCIAL LIABILITIES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current** | | | | |
| Mining exploration and evaluation costs (refer Note 30(d)) | — | 131 | — | — |
| Amounts payable for future user charges (refer Note 30(e)) | 1,795 | 1,694 | — | — |
| Foreign currency derivative contracts | — | 1,447 | — | — |
| Other derivative contracts | 2,000 | — | 2,000 | — |
| | 3,795 | 3,272 | 2,000 | — |
| **Non-current** | | | | |
| Amounts payable for future user charges (refer Note 30(e)) | 8,908 | 10,704 | — | — |
| Foreign currency derivative contracts | — | 377 | — | — |
| | 8,908 | 11,081 | — | — |

**Other derivative contracts**

On 22 June 2007, the Company entered an agreement whereby an option was granted to a non-related third party to buy all the shares of two wholly owned subsidiaries, Monto Coal Pty Ltd and Monto Coal 2 Pty Ltd for a total consideration of approximately A$41,950,000 subject to the satisfaction of several conditions precedent. Monto Coal 2 Pty Ltd holds a 51% interest in the Monto Coal Joint Venture and Monto Coal Pty Ltd acts as operator of that joint venture. The assets and liabilities relating to these companies have been disclosed as held for sale (refer Note 19).

An option fee of A$2,000,000 was receivable by the Company on 29 June 2007. The option period begins on 1 July 2007 and ends on 15 October 2007. If the option is exercised, the option fee becomes the non-refundable deposit for the Share Sale Agreement, which will be entered into when the option is exercised. Any cash calls paid for by the Group during the option period in relation to joint venture activities will be reimbursed by the buyer, in the event the option is exercised.

A change in control of Monto Coal 2 Pty Ltd will arise on exercise of the option. As a result, Monto Coal 2 Pty Ltd will be obliged to offer its 51% interest in the Monto Coal Joint Venture to the minority joint venture participants at market value. In the event that the minority participants in the joint venture exercise their pre-emptive rights, the Company will reimburse the buyer of the shares in Monto Coal Pty Ltd and Monto Coal 2 Pty Ltd, for the shortfall of the price received by that buyer in comparison to the consideration paid for the shares in Monto Coal Pty Ltd and Monto Coal 2 Pty Ltd, or share 50% of the excess where the price exceeds the consideration paid for the shares. Following this, the Company must purchase back the shares in Monto Coal Pty Ltd and Monto Coal 2 Pty Ltd for consideration of A$1.

In the event that the option is not exercised, the option fee is retained by the Company. The contract can be terminated for particular stated events, upon which the option fee is refunded.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 27. CAPITAL AND RESERVES

**Reconciliation of movement in capital and reserves**

| | **Share capital** A$'000 | **Hedging reserve** A$'000 | **Fair value reserve** A$'000 | **Retained earnings** A$'000 | **Total equity** A$'000 |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| Balance at 1 July 2005 | 182,563 | — | — | 53,525 | 236,088 |
| Effect of change in accounting policy | — | 15,504 | — | — | 15,504 |
| Balance at 1 July 2005 — restated | 182,563 | 15,504 | — | 53,525 | 251,592 |
| Total recognised income and expense | — | (12,684) | — | 149,589 | 136,905 |
| Shares issued on acquisition of joint venture interests | 48,078 | — | — | — | 48,078 |
| Shares issued on exercise of options | 152 | — | — | — | 152 |
| Shares issued on conversion of convertible notes | 5,559 | — | — | — | 5,559 |
| Equity settled transactions | 9,991 | — | — | 308 | 10,299 |
| Dividends to shareholders | — | — | — | (61,412) | (61,412) |
| Balance at 30 June 2006 | 246,343 | 2,820 | — | 142,010 | 391,173 |
| Balance at 1 July 2006 | 246,343 | 2,820 | — | 142,010 | 391,173 |
| Total recognised income and expense | — | 10,430 | 1,003 | 66,544 | 77,977 |
| Dividends to shareholders | — | — | — | (54,340) | (54,340) |
| Balance at 30 June 2007 | 246,343 | 13,250 | 1,003 | 154,214 | 414,810 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**27. CAPITAL AND RESERVES (continued)**

**Reconciliation of movement in capital and reserves (continued)**

| | **Share capital** A$'000 | **Hedging reserve** A$'000 | **Fair value reserve** A$'000 | **Retained earnings** A$'000 | **Total equity** A$'000 |
|---|---|---|---|---|---|
| **Company** | | | | | |
| Balance at 1 July 2005 | 182,563 | — | — | 4,184 | 186,747 |
| Effect of change in accounting policy | — | — | — | — | — |
| Balance at 1 July 2005 — restated | 182,563 | — | — | 4,184 | 186,747 |
| Total recognised income and expense | — | — | — | 61,225 | 61,225 |
| Shares issued on acquisition of joint venture interests | 48,078 | — | — | — | 48,078 |
| Shares issued on exercise of options | 152 | — | — | — | 152 |
| Shares issued on conversion of convertible notes | 5,559 | — | — | — | 5,559 |
| Equity settled transactions | 9,991 | — | — | 308 | 10,299 |
| Dividends to shareholders | — | — | — | (61,412) | (61,412) |
| Balance at 30 June 2006 | 246,343 | — | — | 4,305 | 250,648 |
| Balance at 1 July 2006 | 246,343 | — | — | 4,305 | 250,648 |
| Total recognised income and expense | — | — | 1,003 | 63,684 | 64,687 |
| Dividends to shareholders | — | — | — | (54,340) | (54,340) |
| Balance at 30 June 2007 | 246,343 | — | 1,003 | 13,649 | 260,995 |

***Share capital***

| | **Company Ordinary shares** 2007 | 2006 |
|---|---|---|
| On issue at 1 July | 187,380,346 | 172,824,327 |
| Shares issued on acquisition of joint venture interests | — | 7,584,677 |
| Shares issued on equity settled transaction | — | 3,027,396 |
| Shares issued on exercise of options | — | 110,000 |
| Shares issued on conversion of convertible notes | — | 3,833,946 |
| On issue at 30 June — fully paid | 187,380,346 | 187,380,346 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**27. CAPITAL AND RESERVES (continued)**

**Reconciliation of movement in capital and reserves (continued)**

***Share capital (continued)***

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary 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.

In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds.

**Hedging reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

**Fair value reserve**

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised.

**Dividends**

Dividends recognised in the current year by the Company are:

| | Cents per share | Total amount<br>A$ | Franked/<br>unfranked | Date of<br>payment |
|---|---|---|---|---|
| **2007** | | | | |
| Interim 2007 ordinary | 11.0 | 20,611,838 | Franked | 30 March 2007 |
| Final 2006 ordinary | 18.0 | 33,728,462 | Franked | 9 October 2006 |
| Total amount | 29.0 | 54,340,300 | | |
| **2006** | | | | |
| Interim 2006 ordinary | 23.0 | 42,401,179 (1) | Franked | 31 March 2006 |
| Final 2005 ordinary | 11.0 | 19,010,676 (2) | Franked | 30 September 2005 |
| Total amount | 34.0 | 61,411,855 | | |

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

(1) Paid out of AIFRS profits

(2) Paid out of old AGAAP profits

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**27. CAPITAL AND RESERVES (continued)**

**Dividends (continued)**

After the balance sheet date the following dividends were proposed by the directors. The declaration and subsequent payment of dividends has no income tax consequences.

| | Cents per share | Total amount<br>A$ | Franked/<br>unfranked | Date of<br>payment |
|---|---|---|---|---|
| Final ordinary | 7.0 | 13,116,624 | Franked | 28 September 2007 |

The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2007 and will be recognised in subsequent financial reports.

| | Company | |
|---|---|---|
| | **2007**<br>A$'000 | **2006**<br>A$'000 |
| Dividend franking account | | |
| 30% franking credits available to shareholders of the Company for subsequent financial years | 42,303 | 45,981 |

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(a) franking credits that will arise from the payment of the current tax liabilities;

(b) franking debits that will arise from the payment of dividends recognised as a liability at year-end;

(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax-consolidated group at year-end; and

(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by A$5,621,000 (2006: A$14,455,000).

In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of A$42,303,000 (2006: A$45,981,000) franking credits.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 28. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's and the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates.

**Credit risk**

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

The credit risk on financial assets of the Group, which have been recognised on the balance sheet, is the carrying amount, net of impairment.

The Group minimises concentrations of credit risk by undertaking transactions with a number of customers in various countries. Credit risk on customers is also reduced by entering into letters of credit with customers and discounting receivables on a limited recourse basis.

Concentration of credit risk at balance date on trade receivables are: Asia 88% (2006: 63%), Europe 12% (2006: 35%) and Other Nil% (2006: 2%). The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Credit risk on cash, deposits and derivative contracts is managed by ensuring that counterparties are recognised financial intermediaries with acceptable credit ratings and using several counterparties for transactions.

Foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large financial institutions. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the Group pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the Group.

**Interest rate risk**

The Group adopts a policy of ensuring an appropriate amount of its exposure to changes in interest rates on borrowings is on a fixed rate basis. Interest rate swaps denominated in United States dollars were in place to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy. The swaps had a floating interest rate of 5.17% and a fixed interest rate of 2.73% and were closed out during the prior year.

Investments in equity securities and short-term receivables and payables are not exposed to interest rate risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

### 28. FINANCIAL INSTRUMENTS (continued)

**Effective interest rate and repricing analysis**

In respect of income-earning financial assets and interest-bearing financial liabilities, the following tables indicate their effective interest rates at the balance sheet date and the periods in which they reprice.

| | | 2007 | | | | | | | 2006 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Effective interest rate | Total A$'000 | 6 months or less A$'000 | 6-12 months A$'000 | 1-2 years A$'000 | 2-5 years A$'000 | More than 5 years A$'000 | Effective interest rate | Total A$'000 | 6 months or less A$'000 | 6-12 months A$'000 | 1-2 years A$'000 | 2-5 years A$'000 | More than 5 years A$'000 |
| **Consolidated** | | | | | | | | | | | | | | | |
| Cash and cash equivalents | 14 | 6.1% | 96,565 | 96,565 | — | — | — | — | 5.8% | 168,603 | 168,603 | — | — | — | — |
| Cash and deposits — not at call | 17 | 4.7% | 6,020 | 6,020 | — | — | — | — | 4.4% | 6,099 | 6,099 | — | — | — | — |
| Finance lease liabilities | 23 | 7.3% | 7,752 | 716 | 735 | 1,620 | 4,263 | 418 | — | — | — | — | — | — | — |
| Deferred liability for acquisition of mining interest | 23 | 10.7% | (9,577) | (987) | (938) | (1,735) | (4,243) | (1,674) | 10.2% | (10,716) | (990) | (941) | (1,747) | (4,310) | (2,728) |
| Amounts payable for future user charges | 26 | — | (10,703) | (885) | (910) | (1,903) | (6,419) | (586) | — | (12,398) | (835) | (859) | (1,796) | (6,057) | (2,851) |
| | | | 90,057 | 101,429 | (1,113) | (2,018) | (6,399) | (1,842) | | 151,588 | 172,877 | (1,800) | (3,543) | (10,367) | (5,579) |

**Foreign currency risk**

The Group enters into forward foreign exchange contracts to economically hedge a proportion of anticipated coal sale proceeds denominated in United States dollars and Australian dollar costs funded by United States dollar loans, subject to Board approved limits. The terms of these contracts are not more than 3 years. The amount of anticipated future sales and costs is forecast in light of current conditions in foreign markets, commitments from customers and to suppliers and experience. All sales from the first of each quarter, after allowing for the natural hedge designations referred to below, are designated as being hedged until all hedge contracts are fully utilised. Notes 3(b) and (c) set out the accounting treatment for foreign currency transactions and hedges.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**28. FINANCIAL INSTRUMENTS (continued)**

**Foreign currency risk (continued)**

***Natural hedge***

A specific natural hedge existed between the United States dollar denominated cash advance term loan and United State dollar denominated coal sales revenue. The natural hedge position was established in prior periods when the cash advance term loan was restructured and the Australian dollar denominated debt was redrawn as a United States dollar denominated debt and upon further drawings of United States dollar denominated debt. The United States dollar denominated debt was repaid during the prior period and the unrealised foreign exchange gains deferred under previous AGAAP continue to be deferred and included in the measurement of the anticipated transaction when the transaction has occurred as originally designated.

***Forecasted transactions***

The Group classifies its forward exchange contracts hedging forecasted sales as cash flow hedges and measures them at fair value.

The net fair value of forward exchange contracts used as hedges of forecasted sales at 30 June 2007 was A$18,560,000 (2006: A$887,000), comprising assets of A$18,560,000 (2006: A$2,711,000) and liabilities of A$Nil (2006: A$1,824,000) that were recognised as derivatives measured at fair value.

***Recognised assets and liabilities***

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of 'financial income and expenses' (see Note 10). The fair value of forward exchange contracts used as economic hedges of monetary assets and liabilities in foreign currencies at 30 June 2007 was A$Nil (2006: A$Nil) for the Group and A$Nil (2006: A$Nil) for the Company recognised in the fair value derivatives.

**Sensitivity analysis**

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At 30 June 2007, it is estimated that a general increase of one percentage point in interest rates would increase the Group's profit before tax by approximately A$1,531,000 (2006: A$1,460,000).

It is estimated that a general increase of one percentage point in the value of the Australian dollar against other foreign currencies would have decreased the Group's profit before tax by approximately A$132,000 for the financial year ended 30 June 2007 (2006: A$332,000). The forward exchange contracts have been included in this calculation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 28. FINANCIAL INSTRUMENTS (continued)

**Fair values**

The fair values together with the carrying amounts shown in the balance sheet are as follows:

**Consolidated**

| | Note | Carrying amount 2007 A$'000 | Fair value 2007 A$'000 | Carrying amount 2006 A$'000 | Fair value 2006 A$'000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 14 | 96,565 | 96,565 | 168,603 | 168,603 |
| Trade and other receivables | 15 | 39,213 | 39,213 | 51,075 | 51,075 |
| Cash and deposits — not at call | 17 | 6,020 | 6,020 | 6,099 | 6,099 |
| Investments in equity securities | 17 | 33,115 | 33,115 | — | — |
| Foreign currency derivative contracts: | | | | | |
| Assets | 17 | 18,560 | 18,560 | 2,711 | 2,711 |
| Liabilities | 26 | — | — | (1,824) | (1,824) |
| Trade and other payables | 22 | (81,416) | (81,416) | (68,538) | (68,538) |
| Deferred liability for acquisition of mining interest | 23 | (9,577) | (9,577) | (10,716) | (10,716) |
| Finance lease liabilities | 23 | (7,752) | (7,752) | — | — |
| Other derivative contracts | 26 | (2,000) | (2,000) | — | — |
| Employee benefits | 24 | (1,820) | (1,820) | (662) | (662) |
| Other financial liabilities | 26 | (10,703) | (10,703) | (12,529) | (12,529) |
| Unrecognised (losses)/gains | | | — | | — |

**Estimation of fair values**

The methods used in determining the fair values of financial instruments are discussed in Note 4.

**Interest rates used for determining fair value**

The entity uses the government yield curve as of 30 June 2007 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

| | 2007 % | 2006 % |
|---|---|---|
| Derivatives | 5.5 — 7.0 | 5.0 — 6.5 |
| Deferred liability for acquisition of mining interest | 10.7 | 10.2 |
| Receivables | 5.5 — 6.5 | 5.5 — 6.0 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 29. INTERESTS IN JOINT VENTURE OPERATIONS

The Group holds the following interests in various joint ventures whose principal activities are coal production, exploration and evaluation, and development.

| | Joint Venture % Interest held | | |
|---|---|---|---|
| | **2007** | **2006** | **Principal activity** |
| Coppabella and Moorvale Joint Venture | 73.3% | 73.3% | Coal production |
| Monto Coal Joint Venture | 51% | 51% | Exploration and evaluation |
| Olive Downs (South) Joint Venture (refer below) | 90% | — | Exploration and evaluation |
| Olive Downs Joint Venture (refer below) | — | 90% | Exploration and evaluation |
| Moorvale West Joint Venture | 90% | 90% | Exploration and evaluation |
| West/North Burton Joint Venture | 65% | 65% | Exploration and evaluation |
| West Rolleston Joint Venture | 90% | 90% | Exploration and evaluation |
| West Walker Joint Venture | 85% | 85% | Exploration and evaluation |
| Bowen Basin Coal Joint Venture | 85% | 85% | Exploration and evaluation |
| Capricorn Joint Venture | 85% | 85% | Exploration and evaluation |

For the year ended 30 June 2007, the contribution of the Coppabella and Moorvale Joint Venture to the operating profit before tax of the Group was A$93,909,000 (2006: A$227,524,000). The value of the Group's 73.3% share of coal sold (pre hedging) during the year by Coppabella and Moorvale Joint Venture was A$346,138,000 (2006: A$525,510,000).

There was no coal mined by the other joint ventures during the year.

On 16 May 2007, the Group sold 16.7% of its 90% interest in the Olive Downs North project (previously part of Olive Downs Joint Venture) which comprises the tenement region to the North of the Isaac River. The Group's interest in the Olive Downs North project is now reported within Coppabella and Moorvale Joint Venture at 73.3%. The Group's interest in the tenement area to the south of the Isaac River remains at 90% and is now identified as Olive Downs (South) Joint Venture.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 29. INTERESTS IN JOINT VENTURE OPERATIONS (continued)

Included in the assets and liabilities of the Group are the following items which represent the Group's interest in the assets and liabilities employed in the joint ventures, recorded in accordance with the accounting policies described in Note 3(a).

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Current assets** | | | | |
| Cash and cash equivalents | — | — | — | — |
| Trade and other receivables | 15,647 | 11,448 | — | — |
| Inventories | 28,627 | 15,412 | — | — |
| Other financial assets | 6,020 | 6,098 | — | — |
| Overburden in advance | 105,552 | 74,206 | — | — |
| Assets classified as held for sale | 33,537 | — | — | — |
| **Total current assets** | 189,383 | 107,164 | — | — |
| **Non-current assets** | | | | |
| Trade and other receivables | 3,080 | 4,073 | — | — |
| Property, plant and equipment | 181,254 | 166,972 | — | — |
| Exploration and evaluation assets | 66,303 | 94,809 | — | — |
| Overburden in advance | 2,765 | 2,904 | — | — |
| **Total non-current assets** | 253,402 | 268,758 | — | — |
| **Total assets** | 442,785 | 375,922 | — | — |
| **Current liabilities** | | | | |
| Trade and other payables | 75,603 | 65,815 | — | — |
| Loans and borrowings | 1,451 | — | — | — |
| Provisions | 1,030 | 3,265 | — | — |
| Other financial liabilities | 1,795 | 1,825 | — | — |
| **Total current liabilities** | 79,879 | 70,905 | — | — |
| **Non-current liabilities** | | | | |
| Loans and borrowings | 6,301 | — | — | — |
| Provisions | 19,669 | 16,502 | — | — |
| Other financial liabilities | 8,908 | 10,704 | — | — |
| **Total non-current liabilities** | 34,878 | 27,206 | — | — |
| **Total liabilities** | 114,757 | 98,111 | — | — |

Refer to Notes 30 and 31 for details of commitments and contingent liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 30. CAPITAL AND OTHER COMMITMENTS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **(a) Capital expenditure commitments — joint ventures** | | | | |
| Buildings and infrastructure contracted but not provided for in the financial statements and payable: | | | | |
| Not later than one year | 36,597 | 9,985 | — | — |
| Later than one year but not later than five years | — | 3,328 | — | — |
| | 36,597 | 13,313 | — | — |
| **(b) Operating lease commitments** | | | | |
| Future operating lease rentals not provided for in the financial statements and payable: | | | | |
| Not later than one year | 552 | 553 | 440 | 474 |
| Later than one year but not later than five years | 1,719 | 1,632 | 1,518 | 1,618 |
| Later than five years | 45 | 289 | 45 | 289 |
| | 2,316 | 2,474 | 2,003 | 2,381 |

The Group leases a number of office spaces under operating leases. The leases typically run for a period of 2 to 7 years. Lease payments are increased every year to reflect market rentals.

During the financial year ended 30 June 2007, A$571,000 was recognised as an expense in the income statement in respect of operating leases (2006: A$386,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**30. CAPITAL AND OTHER COMMITMENTS (continued)**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **(c) Mining leases — joint ventures** | | | | |
| Future mining lease rentals not provided for in the financial statements and payable: | | | | |
| Not later than one year | 391 | 372 | — | — |
| Later than one year but not later than five years | 1,236 | 1,194 | — | — |
| Later than five years | 2,807 | 2,959 | — | — |
| | 4,434 | 4,525 | — | — |
| **(d) Exploration and evaluation expenditure** | | | | |
| **Exploration obligations** | | | | |
| In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. The expenditure obligations are subject to renegotiation when application for a mining lease and/or renewal of exploration permits is made and at other times. These obligations are not provided for in the financial statements and are payable: | | | | |
| Not later than one year | 1,075 | 1,111 | — | — |
| Later than one year but not later than five years | 1,457 | 1,998 | — | — |
| | 2,532 | 3,109 | — | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**30. CAPITAL AND OTHER COMMITMENTS (continued)**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **(d) Exploration and evaluation expenditure (continued)** | | | | |
| *Exploration costs* | | | | |
| Committed costs for exploration and evaluation areas not provided for in the financial statements and payable: | | | | |
| Not later than one year | — | 1 | — | — |
| Later than one year but not later than five years | — | — | — | — |
| | — | 1 | — | — |
| **(e) Operating commitments — joint ventures** | | | | |
| Commitments under the electricity, water, rail, port, coal washing plant and train loading facility agreements for joint ventures not provided for in the financial statements and payable: | | | | |
| Not later than one year | 65,523 | 27,884 | 7,585 | 2,094 |
| Later than one year but not later than five years | 205,768 | 101,549 | 60,181 | 25,698 |
| Later than five years | 291,329 | 153,342 | 160,768 | 100,697 |
| | 562,620 | 282,775 | 228,534 | 128,489 |

In addition to the operating commitments in (e) above, other contracts on commercial terms and conditions have been entered into with contractors for overburden and mining operations at Coppabella and Moorvale mines and with original owners regarding royalty arrangements. As the amounts payable under the contracts vary with the quantities mined and sold, future commitments are not able to be reliably assessed and quantified.

Refer Note 23 for commitments relating to finance leases of the Group.

On 23 October 2002, the Coppabella and Moorvale Joint Venture participants agreed to pay a user charge to the Queensland Government for the facilitation of the transport infrastructure corridor (TIC) relocation. The user charge comprises 40 quarterly payments (Group share of A$596,000 per quarter; 2006: A$596,000 per quarter), commencing 1 October 2002, which have been included in the above operating commitments less the amounts payable for future user charges brought to account at 30 June 2007 (refer Note 26).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**30. CAPITAL AND OTHER COMMITMENTS (continued)**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **(f) Employee compensation commitments** | | | | |
| **Key management personnel** | | | | |
| Commitments under non-cancellable employment contracts not provided for in the financial statements and payable: | | | | |
| Within one year | — | 830 | — | 438 |
| Later than one year but not later than five years | — | 327 | — | — |
| | — | 1,157 | — | 438 |

Denis Wood is a director of Queensland Coke & Energy Pty Ltd (QCE), a wholly controlled entity of the Company. By a Services Agreement dated 1 August 2005 (and as varied on 8 September 2006), Coal Industry Services Pty Ltd, a director related entity, has agreed to provide the services of Denis Wood to QCE at A$392,400 per annum (2006: A$392,400 per annum) together with the provision of a car park and mobile telephone. The contract relates to the development of a coke project and is for an initial period of 3 years but is able to be extended. If the project is successfully developed, a royalty is payable for 15 years at A$0.50 per tonne for up to 1.6 million tonnes per annum and A$0.25 per tonne for each tonne over 1.6 million tonnes per annum. The contract may be terminated for particular stated events, in which case no termination payments are payable. If terminated for other stated events, the royalty remains payable.

The Services Agreement was suspended on 31 December 2006 and terminated with an effective date of 30 April 2007.

The above amounts represent minimum commitments under these arrangements offset by any amounts brought to account as liabilities at 30 June 2007.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

**30. CAPITAL AND OTHER COMMITMENTS (continued)**

**(g) Other commitments**

**Joint Ventures**

*Deeds of cross charge*

(i) The payment of future cash calls by Coppabella Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the Coppabella and Moorvale Joint Venture is secured by a guarantee from the Company and a charge over Coppabella Coal Pty Ltd's interest in the Coppabella and Moorvale Joint Venture in favour of the other joint venturers and Macarthur Coal (C&M Management) Pty Ltd as the manager of the Coppabella and Moorvale Joint Venture.

(ii) The payment of future cash calls by Monto Coal 2 Pty Ltd, a controlled entity, for its share of operating and capital costs in the Monto Coal Joint Venture is secured by a charge over Monto Coal 2 Pty Ltd's interest in the Monto Coal Joint Venture in favour of the other joint venturers.

(iii) The payment of future cash calls by Olive Downs Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the Olive Downs (South) Joint Venture (previously known as the Olive Downs Joint Venture) is secured by a charge over Olive Downs Coal Pty Ltd's interest in the Olive Downs (South) Joint Venture (previously known as the Olive Downs Joint Venture) in favour of the other joint venturers.

(iv) The payment of future cash calls by Capricorn Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the Capricorn Joint Venture is secured by a charge over Capricorn Coal Pty Ltd's interest in the Capricorn Joint Venture in favour of the other joint venturers.

(v) The payment of future cash calls by West Burton Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the West/North Burton Joint Venture is secured by a charge over West Burton Coal Pty Ltd's interest in the West/North Burton Joint Venture in favour of the other joint venturers.

(vi) The payment of future cash calls by West Rolleston Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the West Rolleston Joint Venture is secured by a charge over West Rolleston Coal Pty Ltd's interest in the West Rolleston Joint Venture in favour of the other joint venturers.

(vii) The payment of future cash calls by West Walker Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the West Walker Joint Venture is secured by a charge over West Walker Coal Pty Ltd's interest in the West Walker Joint Venture in favour of the other joint venturers.

(viii) The payment of future cash calls by Moorvale West Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the Moorvale West Joint Venture is secured by a charge over Moorvale West Coal Pty Ltd's interest in the Moorvale West Joint Venture in favour of the other joint venturers.

(ix) The payment of future cash calls by BB Interests Pty Ltd, a controlled entity, for its share of operating and capital costs in the Bowen Basin Coal Joint Venture is secured by a charge over BB Interests Pty Ltd's interest in the Bowen Basin Coal Joint Venture in favour of the other joint venturers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**30. CAPITAL AND OTHER COMMITMENTS (continued)**

**(g) Other commitments (continued)**

**Joint Ventures (continued)**

*Other*

(i) The Company has guaranteed the commitments of Coppabella Coal Pty Ltd and Monto Coal 2 Pty Ltd, controlled entities, in relation to royalty arrangements.

***Associates***

Refer Note 33.

**31. CONTINGENCIES**

**Indemnities**

Indemnities have been provided to directors and certain executive officers of the Company in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations outstanding at 30 June 2007.(1)

(1) These contingent liabilities are considered remote.

**Guarantees**

Coppabella Coal Pty Ltd, a controlled entity, as a participant of the Coppabella and Moorvale Joint Venture, has provided bank guarantees totalling A$59,835,000 (2006: A$57,787,000) in respect of rehabilitation works, electricity, water, transport infrastructure corridor facilities and customers. Further guarantees totalling A$6,034,000 (2006: A$Nil) have been provided in respect of rehabilitation works and water which have been secured by bank term deposits of the same amount (refer Note 14).(1)

The Group, as a participant of the Coppabella and Moorvale Joint Venture, has entered into a Residual Value Guarantee (RVG) with a bank regarding the lease residual value of the dragline used by a contractor at the Coppabella Mine for A$10,775,000 (2006: A$10,775,000) (included in the amount of guarantees referred to above). The lease term expires on 30 June 2008. Management of Macarthur Coal (C&M Management) Pty Ltd, the manager of the Coppabella and Moorvale Joint Venture, expect the future value of the dragline to be in excess of the residual value at 30 June 2008 provided the contractor performs to the Asset Management Plan. The financier of the dragline also holds a fixed and floating charge over Coppabella Coal Pty Ltd's interests up to the agreed share of the residual value being A$10,775,000 (2006: A$10,775,000).(1)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 31. CONTINGENCIES (continued)

**Guarantees (continued)**

Coppabella Coal Pty Ltd, a controlled entity, as a participant of the Coppabella and Moorvale Joint Venture, has entered into the Coppabella Dragline Agreement dated 19 April 2002 requiring purchase guarantees to be provided in relation to the Marion 8200 dragline erected by Roche Mining Pty Ltd (Roche) and that will be used by Roche in undertaking a contract, being for the removal of overburden and mining of coal. In the event of a termination of the contract, the guarantees in place require Macarthur Coal (C&M Management) Pty Ltd, as agent for the Coppabella and Moorvale Joint Venture, to assume all the reasonable continuing liabilities of the dragline, any items that relate to the construction or operation of the dragline (including spare parts) and any financing responsibilities in relation to the operating lease between Roche and the Lease Financiers including Investec Bank (Australia) Limited.(1)

(1) These contingent liabilities are considered remote.

**Environmental**

Current Queensland Government environment policy requires the preparation of an Environmental Management Overview Strategy (EMOS) and a Plan of Operations detailing the quality, timing and standards of planned mine rehabilitation work. The Coppabella and Moorvale Joint Venture have prepared its EMOS and its Plans of Operations has been accepted by the Environmental Protection Agency. In addition to the EMOS and the Plans of Operations, the Group is required to lodge securities with the Department of Natural Resources, Mines and Water to ensure compliance with relevant legislation. The total amount of the guarantees lodged with the Department of Natural Resources, Mines and Water as at 30 June 2007 is A$14,615,000 (2006: A$13,760,000) (included in the amount of guarantees referred to above).(1)

(1) These contingent liabilities are considered remote.

**Memorandum of Understanding**

During the year ended 30 June 2005, Queensland Coke & Energy Pty Ltd (QCE), a wholly owned controlled entity of the Company entered into a memorandum of understanding with a contractor to develop an estimated cost and execution plan for the design and construction of the coke plant as part of the feasibility study. If the memorandum of understanding is terminated by QCE and an alternative contractor is ultimately appointed to construct the plant, a fee of A$1,500,000 will be payable. The memorandum of understanding has expired and no alternative contractor has been appointed to construct the coke plant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**31. CONTINGENCIES (continued)**

**Litigation**

On 19 December 2003, Macarthur Coal (C&M Management) Pty Ltd (MCCM), as manager and agent for the Coppabella and Moorvale Joint Venture participants, lodged a Notice of Dispute with its mining contractor Downer EDI Mining Pty Ltd (formerly Roche Mining Pty Ltd) in relation to a mining contract at the Coppabella mine. The claim included recovery of loss and damages for higher production costs and demurrage resulting from a failure of the contractor to deliver coal in accordance with the contract provisions.

On 9 June 2004, following rejection by the Superintendent of claims from the contractor, the contractor lodged a Notice of Dispute on MCCM under the mining contract. The rejected claim, consisting of 9 heads of claim, included higher costs of mining in the 2004 financial year due to alleged delay in access to particular mining areas and alleged adverse mining conditions. By letter dated 28 June 2004, the contractor referred the Dispute to arbitration.

On 28 February 2005, the arbitrator determined that 7 of the 9 points of claim could proceed to arbitration. MCCM received the detailed Points of Claim (referred to as the 2004 financial year claim) from the contractor on 21 March 2005 and detailed Further Particulars on 5 September 2005. On 7 April 2006, MCCM lodged its defence in relation to the Points of Claim and lodged a counter claim against the contractor. On 5 July 2005, the contractor lodged a further Notice of Dispute in relation to alleged additional costs resulting from the Superintendent's approval of the 2005 financial year Mine Plan (referred to as the 2005 financial year claim). The claims were rejected by the Superintendent and the subsequent dispute was referred to arbitration in August 2005. On 10 April 2006, the contractor lodged a Consolidated and Further Amended Points of Claim in relation to both the 2004 financial year claim and the 2005 financial year claim. MCCM lodged its defence to the consolidated claim on 13 October 2006. On 13 January 2006, the contractor lodged a further Notice of Claim in relation to alleged additional costs resulting from the Superintendent's approval of the 2006 financial year Mine Plan. As at the date of this report, the contractor has not provided to the Superintendent requested details of the nature and quantum of this claim.

The total value of the three claims noted above for financial years 2004, 2005 and 2006 is in the order of A$90,000,000 for the Coppabella and Moorvale Joint Venture, of which the Group holds a 73.3% interest. Downer EDI Mining Pty Ltd have recently notified the Arbitrator that certain claims are withdrawn and a claim for coal rehandle rates has been settled by negotiation. These items are excluded from the total value of claims disclosed in this report. Areas of duplication have been identified across these three claims and the contractor is yet to provide particulars regarding basis and quantum of the third claim.

The Directors of the Group (and the Manager) dispute the above claims and will vigorously defend their position in arbitration. Following an appeal by Downer EDI Mining Pty Ltd to the Arbitrator for additional time to prepare their case, the original date of 12 June 2007 for the arbitration hearing to commence has been postponed.

In the Director's opinion, disclosure of any further information about the above matter would be prejudicial to the interests of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 32. GROUP ENTITIES

| | Ownership interest | |
|---|---|---|
| | **2007** | **2006** |
| | % | % |
| **Parent entity** | | |
| Macarthur Coal Limited | | |
| **Subsidiaries** | | |
| Coppabella Coal Pty Ltd | 100 | 100 |
| Macarthur Coal Management Pty Ltd | 100 | 100 |
| Macarthur Coal Mine Management Pty Ltd | 100 | 100 |
| Moorvale Coal Pty Ltd | 100 | 100 |
| Macarthur Coal (Equipment) Pty Ltd (formerly Moorvale Interest Pty Ltd) | 100 | 100 |
| Monto Coal Pty Ltd | 100 | 100 |
| Monto Coal 2 Pty Ltd | 100 | 100 |
| Macarthur Exploration Pty Ltd | 100 | 100 |
| Olive Downs Coal Pty Ltd | 100 | 100 |
| Queensland Coke & Energy Pty Ltd | 100 | 100 |
| Capricorn Coal Pty Ltd | 100 | 100 |
| West Burton Coal Pty Ltd | 100 | 100 |
| West Rolleston Coal Pty Ltd | 100 | 100 |
| West Walker Coal Pty Ltd | 100 | 100 |
| Moorvale West Coal Pty Ltd | 100 | 100 |
| BB Interests Pty Ltd | 100 | 100 |

All subsidiaries were incorporated and carry on business in Australia.

In the financial statements of the Company, investments in controlled entities are measured at cost and included with other financial assets. Refer to Note 17. The Company has no jointly controlled entities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 33. INVESTMENTS IN ASSOCIATED ENTITIES

| | Principal activities | Reporting date | Interest held 2007 | 2006 |
|---|---|---|---|---|
| | | | % | % |
| Macarthur Coal (C&M Management) Pty Ltd | Manager of the Coppabella and Moorvale Joint Venture | 30 June | 73.3 | 73.3 |
| Bistrotel Pty Ltd | Property Owner | 30 June | 73.3 | 73.3 |
| Macarthur Coal (C&M Equipment) Pty Ltd | Equipment Finance | 30 June | 73.3 | — |

Investments in these entities are held in connection with joint venture arrangements. Under these arrangements, the Group does not have control over these associated entities, and accordingly have not been consolidated. The impact of the results and operations of the associated entities are not material to the Group and accordingly have not been equity accounted.

**Commitments**

| | Consolidated 2007 | 2006 |
|---|---|---|
| | A$'000 | A$'000 |
| Share of associates' operating lease commitments payable: | | |
| Not later than one year | 6,541 | 22 |
| Later than one year but not later than five years | 22,862 | 32 |
| | 29,403 | 54 |

2007 includes operating lease commitments relating to production equipment leased by Macarthur Coal (C&M Equipment) Pty Ltd, an associated entity. These costs are reimbursed by the participants of the Coppabella and Moorvale Joint Venture, including Coppabella Coal Pty Ltd, a controlled entity of the Company. The amounts disclosed above represent the Group's share of those operating lease commitments. These amounts have been included in Note 30(e).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 34. ACQUISITIONS OF SUBSIDIARIES AND JOINT VENTURE INTERESTS

The following controlled entities were acquired during the year:

| | Date acquired | Group's interest | Consideration | Contribution to consolidated net profit |
|---|---|---|---|---|
| | | % | A$'000 | A$'000 |
| **2007** | | | | |
| Macarthur Coal (C&M Equipment) Pty Ltd [1] | 28 August 2006 | 100 | — | — |
| **2006** | | | | |
| Moorvale West Coal Pty Ltd [1] | 28 November 2005 | 100 | — | — |
| West Walker Coal Pty Ltd [1] | 28 November 2005 | 100 | — | — |
| West Burton Coal Pty Ltd [1] | 28 November 2005 | 100 | — | — |
| West Rolleston Coal Pty Ltd [1] | 28 November 2005 | 100 | — | — |
| Capricorn Coal Pty Ltd [1] | 28 November 2005 | 100 | — | — |
| BB Interests Pty Ltd | 15 December 2005 | 100 | 16,420 | — |

(1) The companies were acquired as a shelf company for nominal cost. The shelf companies had no assets nor had they operated at the date of acquisition.

On 16 May 2007, shares were issued in Macarthur Coal (C&M Equipment) Pty Ltd and subsequently transferred to the Coppabella and Moorvale Joint Venture participants equivalent to their ownership interests in the joint venture. At that date, the Group's ownership interest in Macarthur Coal (C&M Equipment) Pty Ltd reduced to 73.3% and the company was subsequently deconsolidated and accounted for as an associated entity. Refer to Note 33.

**Acquisition of BB Interests Pty Ltd**

On 15 December 2005, the Group acquired all of the shares in BB Interests Pty Ltd. Consideration for the acquisition was the issue of Macarthur Coal shares to the value of A$16,420,000. BB Interests Pty Ltd was acquired from CITIC Australia Coal Exploration Pty Ltd as part of the acquisition of interests in Bowen Basin exploration tenements from the Group's joint venture partners Bowen Basin Exploration Pty Ltd and CITIC Australia Coal Exploration Pty Ltd.

The company did not contribute to the Group's net profit for the prior period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 34. ACQUISITIONS OF SUBSIDIARIES AND JOINT VENTURE INTERESTS (continued)

**Effect of Acquisition**

The acquisition had the following effect on the Group's assets and liabilities in the prior period:

**Acquiree's net assets at acquisition date**

| | Carrying amounts A$'000 |
|---|---|
| Exploration and evaluation assets | 16,958 |
| Repayment of loan from Macarthur Exploration Pty Ltd, a controlled entity of the Company | (538) |
| Consideration paid, satisfied in shares | 16,420 |

**Acquisition of joint venture interest from Bowen Basin Exploration Pty Ltd**

In the prior period, the Group acquired interests from its joint venture partner, Bowen Basin Exploration Pty Ltd. Bowen Basin Exploration Pty Ltd is an entity controlled by Mr Ken Talbot, a director of the Group. Consideration for the acquisition was the issue of Macarthur Coal shares to the value of A$31,658,000.

**Effect of acquisition**

The acquisition had the following effect on the Group's assets and liabilities in the prior period.

**Net assets acquired at acquisition date**

| | Carrying amounts A$'000 |
|---|---|
| Exploration and evaluation assets | 31,695 |
| Repayment of loan from Macarthur Exploration Pty Ltd, a controlled entity of the Company | (37) |
| Consideration paid, satisfied in shares | 31,658 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 34. ACQUISITIONS OF SUBSIDIARIES AND JOINT VENTURE INTERESTS (continued)

**Effect of acquisition**

Following the acquisition of BB Interests Pty Ltd and joint venture interests from Bowen Basin Exploration Pty Ltd in the prior period, the joint venture participants agreed to restructure the Bowen Basin Coal Exploration Joint Venture into seven new joint ventures as detailed below:

| | Interest held 30 June 2006 | | |
|---|---|---|---|
| | Group | CITIC Australia Coal Exploration Pty Ltd | Bowen Basin Exploration Pty Ltd |
| | % | % | % |
| Olive Downs Joint Venture | 90 | 10 | — |
| Moorvale West Joint Venture | 90 | 10 | — |
| West/North Burton Joint Venture | 65 | 10 | 25 |
| West Walker Joint Venture | 85 | 15 | — |
| West Rolleston Joint Venture | 90 | 10 | — |
| Bowen Basin Coal Joint Venture | 85 | 15 | — |
| Capricorn Joint Venture | 85 | 15 | — |

Refer Note 29 for interests held in these joint ventures at 30 June 2007.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 35. OTHER ACQUISITIONS

On 1 December 2006 the Group acquired mining equipment owned by Peter Champion Mining Pty Ltd (PCM), a contractor operating at the Coppabella Mine, for A$34,254,000 in cash.

The acquisition had the following effect on the Group's assets and liabilities:

| | **Recognised values on acquisition** A$'000 |
|---|---|
| Trade and other receivables | 3,856 |
| Assets held for sale | 28,808 |
| Property, plant and equipment | 1,208 |
| Other assets | 770 |
| Employee benefits | (388) |
| Consideration paid, satisfied in cash | 34,254 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 36. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | A$'000 | A$'000 | A$'000 | A$'000 |
| **Cash flows from operating activities** | | | | |
| Profit for the period | 66,544 | 149,589 | 63,684 | 61,225 |
| Adjustments for: | | | | |
| Depreciation | 16,162 | 16,011 | 139 | 61 |
| Amortisation of financing costs | — | 257 | — | 257 |
| (Reversal)/recognition of impairment losses | (91) | 91 | — | — |
| Amounts set aside to provisions | 2,073 | 6,440 | (43) | 455 |
| Exploration and evaluation expenses | 916 | 387 | — | — |
| Foreign exchange (gains)/losses | (2,016) | (2,682) | — | — |
| Overburden in advance written off | 8,990 | — | — | — |
| Write down of inventories to net realisable value | 2,718 | — | — | — |
| Interest on convertible notes | — | 250 | — | 250 |
| Interest on loans and borrowings | 941 | 1,195 | — | — |
| Interest on unwinding of discount | 1,024 | 721 | — | — |
| Borrowing costs | 680 | 1,908 | — | — |
| Loss on sale of property, plant and equipment | 1,076 | 130 | — | 23 |
| Gain on disposal of available-for-sale financial assets transferred from equity | (7,973) | — | (7,973) | — |
| Gain on disposal of non-current assets | (13,154) | — | — | — |
| Equity-settled share based payment expenses | — | 308 | — | 308 |
| **Operating profit before changes in working capital and provisions** | 77,890 | 174,605 | 55,807 | 62,579 |
| Increase/(decrease) in income tax payable | (37,625) | 27,890 | (37,625) | 27,890 |
| Increase/(decrease) in net deferred tax liabilities/assets | 14,606 | 8,679 | (201) | 117 |
| (Increase)/decrease in tax related receivables | — | — | (14,831) | (62,729) |
| (Increase)/decrease in trade and other receivables | 18,216 | (11,657) | (586) | (863) |
| (Increase)/decrease in inventories | (15,933) | 8,663 | — | — |
| (Increase)/decrease in overburden in advance | (40,197) | (23,831) | — | — |
| (Increase)/decrease in deferred expenditure | — | 257 | — | 257 |
| Increase/(decrease) in trade and other payables | 13,173 | 16,885 | 647 | (39) |
| **Net cash from operating activities** | 30,130 | 201,491 | 3,211 | 27,212 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 37. RELATED PARTIES

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

***Non-executive directors***
Keith De Lacy *(Chairman)*
Don Nissen
Roger Marshall
Peter Forbes
Ken Talbot *(Executive Director until 19 January 2007, non-executive director since 19 January 2007)*

***Executive director***
Nicole Hollows *(Chief Executive Officer, Macarthur Coal Limited, appointed 19 January 2007, appointed as director 28 June 2007)*

***Executives***
Shane Stephan *(Chief Financial Officer, Macarthur Coal Limited, appointed 4 September 2006)*
Lisa Dalton *(Company Secretary, Macarthur Coal Limited, appointed 24 May 2007)*
Gary Lee *(Vice President — Marketing, Macarthur Coal Limited)*
Derick Wilford *(Vice President — Business Improvement, Macarthur Coal Limited, appointed 1 September 2006)*
Michael Gray *(Vice President — Open-cut Development and Infrastructure, appointed 1 September 2006)*
Ian McAleese *(Vice President — Corporate Development, Mergers & Acquisitions, Macarthur Coal Limited)*
Paul Smallbone *(General Manager — Coppabella (SSE), Macarthur Coal Limited, appointed 17 July 2006)*
David Waddell *(General Manager — Moorvale (SSE), Macarthur Coal Limited, appointed 1 September 2006)*
Denis Wood *(Chief Executive Officer, Queensland Coke & Energy Pty Ltd, resigned 30 April 2007)*
Ken Carnes *(Vice President — Marketing Asia, Macarthur Coal Limited)*
Robert Adams *(Company Secretary, Macarthur Coal Limited, resigned 24 May 2007)*
Ian Neill *(Vice President — Operations, Macarthur Coal Limited, resigned 1 March 2007)*
Brett Garland *(Vice President — Underground Development & Exploration, Macarthur Coal Limited, resigned 30 June 2007)*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**37. RELATED PARTIES *(continued)***

**Key management compensation**

The key management personnel compensation included in 'personnel expenses' (see Note 8) are as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$ | A$ | A$ | A$ |
| Short-term employee benefits | 4,591,457 | 3,744,128 | 3,974,610 | 3,279,603 |
| Other long-term benefits | 8,794 | 75,611 | 8,794 | 75,611 |
| Post-employment benefits | 611,247 | 417,394 | 528,343 | 300,397 |
| Termination benefits | 234,928 | — | 234,928 | — |
| Share based payments | 179,500 | 86,122 | 179,500 | 86,122 |
| | 5,625,926 | 4,323,255 | 4,926,175 | 3,741,733 |

**Loans to key management personnel**

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Group to key management personnel and their related parties are as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | A$ | A$ | A$ | A$ |
| Loans to key management personnel — unsecured | 37,382 | 87,735 | 37,382 | 87,735 |

Loans totalling A$Nil (2006: A$115,990) were made to key management personnel during the year in respect of the employee share loan plan. During the year, repayments of A$34,242 (2006: A$28,255) were made on the loans.

All loans to key management personnel in relation to the employee share loan plan are interest free and any dividends received on the allocated shares are applied to repay the loan balance. Fixed regular loan repayments are also made to repay the loan balance. No amounts have been written down or recorded as allowances, as the balances are considered fully collectable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 37. RELATED PARTIES (continued)

**Individual directors and executives compensation disclosures**

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration report section of the Directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

**Equity instruments**

All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the Directors' option plan and Executive option plan.

Options granted to directors are on the same terms and conditions as those granted to other employees. There were no options granted during the year.

**Options and rights over equity instruments**

There were no options held by key management personnel at any time during the reporting period. There was no movement during the reporting period in the number of options over ordinary shares in Macarthur Coal Limited held, directly, indirectly or beneficially, by each key management person, including their related parties.

No options held by key management personnel are vested but not exercisable at 30 June 2006 or 2007. Refer to Note 24 'Share based payments — Executive Option Plan' for further details.

**Movements in shares**

The movement during the reporting period in the number of ordinary shares in Macarthur Coal Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**37. RELATED PARTIES (continued)**

**Movements in shares (continued)**

| | Held at 1 July 2006 | Acquisitions | Received on exercise of options | Disposals | Held at 30 June 2007 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Keith De Lacy | 280,740 | 10,000 | — | — | 290,740 |
| Roger Marshall | 124,240 | 10,000 | — | — | 134,240 |
| Don Nissen | 313,840 | 31,532 | — | (15,466) | 329,906 |
| Peter Forbes | 22,240 | 10,000 | — | — | 32,240 |
| Ken Talbot | 66,659,137 | — | — | — | 66,659,137 |
| Nicole Hollows | 10,000 | — | — | — | 10,000 |
| **Executives** | | | | | |
| Brett Garland | 3,682 | — | — | — | 3,682 |
| Robert Adams | 3,682 | — | — | — | 3,682 |
| Ian Neill | 3,682 | — | — | 3,682 | — |
| Gary Lee | 3,682 | — | — | — | 3,682 |
| Shane Stephan | 3,682 | — | — | — | 3,682 |
| Ian McAleese | 5,000 | 2,500 | — | 2,000 | 5,500 |
| Denis Wood | — | — | — | — | — |
| Ken Carnes | — | — | — | — | — |
| Derick Wilford | 1,841 | — | — | — | 1,841 |
| Michael Gray | 1,841 | — | — | — | 1,841 |
| Paul Smallbone | — | — | — | — | — |
| David Waddell | — | — | — | — | — |
| Lisa Dalton | — | — | — | — | — |

No shares were granted to key management personnel during the reporting period as compensation, other than 10,000 shares acquired each by Keith De Lacy, Roger Marshall, Don Nissen and Peter Forbes as application of past directors' fees received, as detailed in Note 3(l).

The movement during the previous reporting period in the number of ordinary shares in Macarthur Coal Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

### 37. RELATED PARTIES (continued)

**Movements in shares (continued)**

| | Held at 1 July 2005 | Acquisitions | Received on exercise of options | Disposals | Held at 30 June 2006 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Keith De Lacy | 308,880 | 1,860 | — | 30,000 | 280,740 |
| Roger Marshall | 142,380 | 1,860 | — | 20,000 | 124,240 |
| Don Nissen | 306,580 | 7,260 | — | — | 313,840 |
| Peter Forbes | 20,380 | 1,860 | — | — | 22,240 |
| Ken Talbot | 67,453,748 | 5,205,389 | | 6,000,000 | 66,659,137 |
| Nicole Hollows | 15,000 | — | — | 5,000 | 10,000 |
| **Executives** | | | | | |
| Brett Garland | — | 3,682 | — | — | 3,682 |
| Robert Adams | 170,000 | 3,682 | — | 170,000 | 3,682 |
| Ian Neill | — | 3,682 | — | — | 3,682 |
| Gary Lee | — | 3,682 | — | — | 3,682 |
| Shane Stephan | 55,707 | 3,682 | 110,000 | 165,707 | 3,682 |
| Ian McAleese | — | 5,000 | — | — | 5,000 |
| Denis Wood | — | — | — | — | — |
| Ken Carnes | — | — | — | — | — |
| Mark Turner | — | 2,945 | — | 2,945 | — |

No shares were granted to key management personnel during the previous reporting period as compensation, other than 1,860 shares acquired each by Keith De Lacy, Roger Marshall, Don Nissen and Peter Forbes as application of past directors' fees received, as detailed in Note 3(l).

**Other key management personnel transactions with the Company or its controlled entities**

A number of specified directors, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The terms and conditions of the transactions with directors and personally related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

**37. RELATED PARTIES (continued)**

**Other key management personnel transactions with the Company or its controlled entities (continued)**

Amounts payable to specified directors and their personally-related entities at reporting date arising from related party transactions were as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | A$ | A$ | A$ | A$ |
| **Current liabilities** | | | | |
| Trade and other payables | 2,750 | 9,570 | — | — |

In the prior period, the Group acquired certain joint venture interests in the Bowen Basin Coal Exploration Joint Venture and interests in other tenements from its joint venture partners Bowen Basin Exploration Pty Ltd (BBE) (a related entity of Mr Ken Talbot, a director of the Company) and CITIC Australia Coal Exploration Pty Ltd (CITIC Exploration) (of which Roger Marshall, director of the Company, is a director) for a total acquisition price of A$48,653,000. The acquisition price was based on an independent valuation of the percentage of tenement interests to be acquired by the Group and was approved at a shareholders general meeting held on 15 December 2005.

The interests acquired by the Group were:

| Prospect | Interests acquired from BBE | Interests acquired from CITIC Exploration (by acquiring all the shares in BB Interests Pty Ltd) |
|---|---|---|
| | % | % |
| Olive Downs | 25 | 15 |
| Moorvale West | 25 | 15 |
| West/North Burton | — | 15 |
| West Walker | 25 | 10 |
| West Rolleston | 12.5 | 2.5 |
| Capricorn | — | 10 |
| Bowen Basin Coal | 25 | 10 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007.

**37. RELATED PARTIES (continued)**

**Other key management personnel transactions with the Company or its controlled entities *(continued)***

The interests retained by BBE and CITIC Exploration following completion of the acquisition by Macarthur Coal at that date were:

| Prospect | Interest retained by BBE | Interest retained by CITIC Exploration |
|---|---|---|
| | % | % |
| Olive Downs | — | 10 |
| Moorvale West | — | 10 |
| West/North Burton | 25 | 10 |
| West Walker | — | 15 |
| West Rolleston | — | 10 |
| Capricorn | — | 15 |
| Bowen Basin Coal | — | 15 |

***Acquisition from CITIC Exploration***

The interests acquired from CITIC Exploration were held by BB Interests Pty Ltd, a wholly owned subsidiary of CITIC Exploration. The Group purchased all of the shares in BB Interests from CITIC Exploration for A$16,958,000 with the payment comprising:

- An amount equal to CITIC Exploration's share of the exploration expenditure incurred by the Group on all tenements since 20 October 2004 based on interests held after the acquisition was completed which was paid by the Group in cash. The amount was set off against CITIC Exploration's obligation to pay that amount to the Group.

- The remainder by the issue of 2,590,392 shares in the Company to CITIC Australia Coal Pty Ltd ABN 94 050 137 972. The price at which the shares were issued was A$6.33889912 which was determined by calculating the arithmetic average of the daily volume weighted average sale price of Macarthur Coal shares sold in the ordinary course of trading on ASX during the five trading days commencing on 11 October 2005.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007.

**37. RELATED PARTIES *(continued)***

**Other key management personnel transactions with the Company or its controlled entities *(continued)***

***Acquisition from BBE***

The purchase price of A$31,695,000 comprised:

- An amount equal to BBE's share of the exploration expenditure incurred by the Group on all tenements since 20 October 2004 based on interests held after the acquisition is completed in cash. The amount was set off against BBE's obligation pay that amount to the Group.

- The remainder by the issue of 4,994,285 shares in the Company to MDA Investments Pty Ltd ACN 096 001 857, a related entity of Mr Ken Talbot, a director of the Company. The price at which the shares were issued was A$6.33889912 which was determined by calculating the arithmetic average of the daily volume weighted average sale price of Macarthur Coal shares sold in the ordinary course of trading on the ASX during the five trading days commencing on 11 October 2005.

***Funding of BBE's Called Sums***

The Group has an agreement with BBE to lend funds to BBE from time to time equal to the amount of any calls under the West/North Burton Joint Venture Agreement. The loans may only be used for paying the relevant calls.

BBE must pay interest on the loan amounts at the rate of the 'Indicator Lending Rates — Bank variable housing loans interest rate' last published by the Reserve Bank of Australia before the commencement of each financial year. Interest accrues daily and is capitalised monthly.

BBE's obligation to lend these funds continues from 15 December 2005 until the earliest of:

(a) the date that BBE no longer has an interest under the West/North Burton Joint Venture

(b) the date which is three years from 15 December 2005

(c) the date the parties to the West/North Burton Joint Venture decide not to expend further funds on exploration of the relevant tenements

(d) the date of termination of the deed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007.

**37. RELATED PARTIES *(continued)***

**Other key management personnel transactions with the Company or its controlled entities *(continued)***

***Funding of BBE's Called Sums***

BBE must repay all monies plus interest:

(a) on completion of a sale of all or part of BBE's interest

(b) three years from 15 December 2005

(c) 60 days after the date the parties to the West/North Burton Joint Venture decide to not to expend further funds on exploration of the relevant tenements

(d) two business days after termination of the deed.

The Group may set-off any amount due for repayment against any sale proceeds from the sale of all or part of BBE's interest.

**Changes in key management personnel in the period after the reporting date and prior to the date when the financial report is authorised for issue**

On 23 July 2007, Mr Chen Zeng was appointed to the Macarthur Coal Board of Directors as a non-executive director.

**Non-key management personnel disclosures**

**Identity of related parties**

The Group has a related party relationship with its subsidiaries (see Note 32), joint ventures (see Note 29) and with its key management personnel (refer to disclosures with key management personnel on preceding pages).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007.

**37. RELATED PARTIES *(continued)***

**Subsidiaries**

a) The Company charges and pays interest at normal commercial rates on loans to and from its wholly-owned controlled entities. The loans to and from the wholly-owned controlled entities are unsecured and have no fixed repayment terms. Interest is charged quarterly at 8.285% (2006: 7.620%) per annum on the outstanding balance. Net interest totalling A$8,822,000 (2006: A$6,118,000) was recognised by the Company during the year.

b) The Company also charges management fees to its wholly-owned controlled entities based on the total corporate office expenses. Management fees totalling A$4,114,000 (2006: A$3,358,000) were charged to the wholly-owned controlled entities during the year.

c) A wholly-owned controlled entity, Coppabella Coal Pty Ltd, paid a dividend of A$54,340,000 (2006: A$61,412,000) to the Company.

d) A wholly-owned controlled entity, Macarthur Coal (Equipment) Pty Ltd (formerly Moorvale Interest Pty Ltd), paid a dividend of A$Nil (2006: A$76,000) to the Company.

The aggregate amounts receivable and payable by the Group and the Company from non-director related parties are shown in Notes 15 and 22. Included in these amounts is the aggregate tax related receivable from wholly-owned controlled entities under the Tax Consolidation legislation.

Macarthur Coal Management Pty Ltd, a controlled entity, charges management fees to Macarthur Coal (C&M Management) Pty Ltd, an associated entity, pursuant to the Management Fee Deed dated 31 August 1998. The management fee paid is equal to 0.5% of the aggregate FOB revenue paid to the Coppabella and Moorvale Joint Venture participants from the sale in aggregate of the first 2 million tonnes of coal from the Coppabella Mine in each financial year for the life of the Deed.

Macarthur Coal Mine Management Pty Ltd, a controlled entity, recharges employee expenses at cost to Macarthur Coal (C&M Management) Pty Ltd, an associated entity, and the Coppabella and Moorvale Joint Venture. The expenses are for work performed by Macarthur Coal Mine Management Pty Ltd staff in relation to Coppabella and Moorvale mine activities. Expenses totalling A$8,221,000 (2006: A$Nil) were charged to Macarthur Coal (C&M Management) Pty Ltd and Coppabella and Moorvale Joint Venture during the year.

The Company recharges employee and administration expenses at cost to Macarthur Coal (C&M Management) Pty Ltd, an associated entity, and the Coppabella and Moorvale Joint Venture. The expenses are for administration costs and work performed by Company staff in relation to Coppabella and Moorvale mine activities. Expenses totalling A$3,741,000 (2006: A$3,882,000) were charged to Macarthur Coal (C&M Management) Pty Ltd and Coppabella and Moorvale Joint Venture during the year.

Macarthur Coal (C&M Equipment) Pty Ltd, an associated entity, recharges lease expenses, interest and depreciation expenses at cost to Macarthur Coal (C&M Management) Pty Ltd, an associated entity, and the Coppabella and Moorvale Joint Venture. The expenses are associated with mining equipment used in relation to Coppabella and Moorvale mine activities. Expenses totalling A$6,371,000 (2006: A$Nil) were charged to Macarthur Coal (C&M Management) Pty Ltd and Coppabella and Moorvale Joint Venture during the year. The Group has a 73.3% interest in this joint venture.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007.

### 38. SUBSEQUENT EVENTS

Subsequent to 30 June 2007, the investment in equity securities held in a listed company, referred to in Note 17, were sold on market. The intention to sell the shares in the listed company was formulated prior to 30 June 2007. The sale of the investments was completed during July 2007. A total gain of A$3,649,000 was realised on the sale of the equity securities, of which A$968,000 has been recognised in the year ended 30 June 2007.

**Directors' declaration**

1. In the opinion of the directors of Macarthur Coal Limited ('the Company'):

   (a) the financial statements and notes set out on pages 39 to 100, and the remuneration disclosures that are contained in the Remuneration report in the Directors' report set out on pages 25 to 34, are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their performance, for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standard (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

   (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a);

   (c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and

   (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2007.

Dated at Brisbane this 28th day of August 2007.

Signed in accordance with a resolution of the directors:

**Keith De Lacy**
*Chairman*

KPMG

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACARTHUR COAL LIMITED

### Report on the financial report and AASB 124 remuneration disclosures contained in the Directors' report

We have audited the accompanying financial report of Macarthur Coal Limited (the "Company") which comprises the balance sheets as at 30 June 2007, and the income statements, statements of recognised income and expense and statements of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 38 and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures") required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration report" in the Directors' report and not in the financial report. We have audited those remuneration disclosures marked 'audited'. The Remuneration report also contains information in sections marked 'unaudited' not required by Australian Accounting Standard AASB 124 which is not subject to our audit.

### Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the Directors' report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards, but that the financial report of the Company does not comply.

The directors of the Company are also responsible for the remuneration disclosures contained in the Directors' report.

**Auditor's responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is also to express an opinion on the remuneration disclosures contained in the Directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the Directors' report, 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 report and the remuneration disclosures contained in the Directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the Directors' report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance and whether the remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

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

**INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF MACARTHUR COAL LIMITED (continued)**

**Auditor's opinion on the financial report**

In our opinion:

(a) the financial report of Macarthur Coal Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in Note 2(a).

**Auditor's opinion on AASB 124 remuneration disclosures contained in the directors' report**

In our opinion, the remuneration disclosures that are contained in the Remuneration report in the Directors' report market 'audited' comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

**KPMG**

**Warren Austin**
*Partner*

Brisbane
28 August 2007

KPMG, an Australian partnership, is part of the KPMG International network. KPMG International is a Swiss cooperative.

## (A) UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

The following unaudited pro forma financial information on the Group (the "**Unaudited Pro Forma Financial Information**") was prepared by the directors of the Company.

The Unaudited Pro Forma Financial Information has been prepared to illustrate the effect of the Company's Acquisition in Macarthur Coal.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates and uncertainties, and currently available information. As a result of these assumptions, estimates and uncertainties, the Unaudited Pro Forma Financial Information does not purport to describe the financial position that would have been presented had the Acquisition been completed. Further, the Unaudited Pro Forma Financial Information does not purport to predict the Group's future financial position.

### 1. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP UPON COMPLETION OF THE ACQUISITION

Set out below is an unaudited pro forma statement of assets and liabilities of the Group as at 31 December 2006 which has been prepared for the purpose of illustration as if the Acquisition had been taken place on 31 December 2006.

The unaudited pro forma statement of assets and liabilities of the Group has been prepared based an the audited consolidated balance sheet of the Group as at 31 December 2006 as set out in Appendix I to this circular, after making appropriate pro forma adjustments that are considered necessary.

HK$'000

| | Group: as at 31 December 2006 (Note 1) | Group: pro forma adjustments -reversal of mark-to-market revaluation (Note 2) | Group: pro forma adjustments -reversal of dividend received (Note 3) | Group: pro forma adjustments -payment of a cash consideration (Note 4) | Group: pro forma adjustments -share of reserves and results of Macarthur Coal (Note 5) | Pro forma Group as at 31 December 2006 |
|---|---|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | | | |
| Property, plant and equipment | 2,391,501 | | | | | 2,391,501 |
| Prepaid land lease premiums | 58,353 | | | | | 58,353 |
| Other intangible assets | 135,701 | | | | | 135,701 |
| Other assets | 555,983 | | | | | 555,983 |
| Goodwill | 341,512 | | | | | 341,512 |
| Investment in an associate | — | 266,908 | (79,288) | 696,960 | 180,646 | 1,065,226 |
| Available-for-sale equity investments | 845,936 | (739,350) | | | | 106,586 |
| Prepayments, deposits and other receivables | 16,346 | | | | | 16,346 |
| Loan receivable | 21,615 | | | | | 21,615 |
| Deferred tax assets | 6,754 | | | | | 6,754 |
| Total non-current assets | 4,373,701 | | | | | 4,699,577 |

HK$'000

| | Group: as at 31 December 2006 (Note 1) | Group: pro forma adjustments -reversal of mark-to-market revaluation (Note 2) | Group: pro forma adjustments -reversal of dividend received (Note 3) | Group: pro forma adjustments -payment of a cash consideration (Note 4) | Group: pro forma adjustments -share of reserves and results of Macarthur Coal (Note 5) | Pro forma Group as at 31 December 2006 |
|---|---|---|---|---|---|---|
| **CURRENT ASSETS** | | | | | | |
| Inventories | 1,112,150 | | | | | 1,112,150 |
| Accounts receivable | 939,938 | | | | | 939,938 |
| Prepayments, deposits and other receivables | 1,867,396 | | | | | 1,867,396 |
| Loan receivable | 17,327 | | | | | 17,327 |
| Equity investments at fair value through profit or loss | 1,974 | | | | | 1,974 |
| Derivative financial instruments | 16,380 | | | | | 16,380 |
| Other assets | 62,945 | | | | | 62,945 |
| Cash and cash equivalents | 850,744 | | | (696,960) | | 153,784 |
| Due from related companies | 51,486 | | | | | 51,486 |
| Due from the ultimate holding company | 34,320 | | | | | 34,320 |
| Total current assets | 4,954,660 | | | | | 4,257,700 |
| **CURRENT LIABILITIES** | | | | | | |
| Accounts payable | 533,788 | | | | | 533,788 |
| Tax payable | 47,108 | | | | | 47,108 |
| Accrued liabilities and other payables | 306,789 | | | | | 306,789 |
| Derivative financial instruments | 286,920 | | | | | 286,920 |
| Due to a minority shareholder | 38,174 | | | | | 38,174 |
| Interest-bearing bank and other borrowings | 1,588,022 | | | | | 1,588,022 |
| Provisions | 53,738 | | | | | 53,738 |
| Total current liabilities | 2,854,539 | | | | | 2,854,539 |
| **NET CURRENT ASSETS** | 2,100,121 | | | | | 1,403,461 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | 6,473,822 | | | | | 6,102,738 |
| **NON-CURRENT LIABILITIES** | | | | | | |
| Interest-bearing bank and other borrowings | 2,214,540 | | | | | 2,214,540 |
| Deferred tax liabilities | 519,933 | (141,733) | | | | 378,200 |
| Derivative financial instruments | 41,063 | | | | | 41,063 |
| Provisions | 117,549 | | | | | 117,549 |
| Other payables | 75,648 | | | | | 75,648 |
| Total non-current liabilities | 2,968,733 | | | | | 2,827,000 |
| Net assets | 3,505,089 | | | | | 3,275,738 |

Notes:

1. The balances are extracted from the audited consolidated financial statements of the Group as at 31 December 2006 as set out in Appendix I to this circular.

2. The pro forma adjustments reflect the following:

   (i) the reversal of unrealised gains arising from changes in fair value of the Group's investment in the shares of Macarthur Coal and related deferred tax adjustments of HK$330,709,000 and HK$141,733,000 (in aggregate of HK$472,442,000), respectively; and

   (ii) the reclassification of the cost of an available for-sale equity investment to an investment in associate of HK$266,908,000.

3. The pro forma adjustments relate to the reversal of the dividend received by the Group prior to 31 December 2006 (from 31 March 2004, i.e., the date that the first tranche of investment in the shares of Macarthur Coal to 31 December 2006) of HK$79,288,000.

4. The pro forma adjustments relate to the payment of cash consideration of HK$696,960,000 by CITIC Australia Coal Pty Limited ("CACL") to acquire an additional 8.37% equity interest in Macarthur Coal.

5. The pro forma adjustments relate to the share of reserves and results of Macarthur Coal prior to 31 December 2006 (from 31 March 2004, i.e., the date that the first tranche of investment in the shares of Macarthur Coal to 31 December 2006) of HK$4,003,000 and HK$176,643,000 respectively.

**2. The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.**

ERNST & YOUNG

21 September 2007

The Board of Directors

CITIC Resources Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information on the Group (as defined below) set out on pages III-1 to III-3 in Appendix III to the circular dated 21 September 2007 of CITIC Resources Holdings Limited (the "**Company**", and together with its subsidiaries referred to as the "**Group**") in connection with the acquisition and increase of interest in Macarthur Coal Limited (the "**Acquisition**") (the "**Unaudited Pro Forma Financial Information**"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, solely for illustrative purposes, to provide information about how the Acquisition might have affected the assets and liabilities of the Group as at 31 December 2006.

**Respective responsibilities of the directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants" ("**HKICPA**").

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given to us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

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

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of:

— the Group, had the transaction actually occurred as at the date indicated therein, or

— the Group, at any future dates.

**Opinion**

In our opinion:

(a) the accompanying Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

Yours faithfully,
**Ernst & Young**
*Certified Public Accountants*
Hong Kong

## (B) DIFFERENCE IN RESPECT OF GAAP AND ACCOUNTING POLICY BETWEEN THE COMPANY IN HONG KONG AND MACARTHUR COAL IN AUSTRALIA

The acquisition of the Macarthur Sale Shares by CACL is a private commercial transaction between CACL and Talbot Group and did not involve Macarthur Coal. Accordingly, Macarthur Coal is not obliged nor required to assist the Company to prepare an accountant's report and, being a company listed on the ASX, was not prepared to disclose financial information in addition to that which it already discloses on an annual, semi-annual and quarterly basis in accordance with its obligations to the ASX. In addition, Macarthur Coal will not become a subsidiary of the Company as a result of the acquisition of the Macarthur Sale Shares by CACL. The Company, therefore, applied to the Stock Exchange pursuant to Listing Rule 14.67(4)(a)(i) for a waiver from the requirement to prepare an accountant's report in accordance with that Listing Rule. Instead of preparing an accountant's report on Macarthur Coal, the Company has reproduced the audited financial statements of Macarthur Coal for the three years ended 30 June 2007 in this circular.

The Directors believe that (i) there are no principal differences between the financial information of Macarthur Coal as prepared under Australian GAAP and the financial information of Macarthur Coal if it was to be prepared under Hong Kong GAAP and (ii) there are no principal differences between the accounting policies of the Company and Macarthur Coal, which has been confirmed by Ernst & Young based on certain agreed upon procedures performed.

## (C) INDEBTEDNESS

**Borrowings**

As at 30 June 2007, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Group had the following outstanding borrowings:

| | Notes | **30 June 2007** HK$'000 |
|---|---|---|
| Bank loans: | | |
| Secured | (a) | 925,619 |
| Unsecured | (b) | 2,281,485 |
| | | 3,207,104 |
| Other loans, unsecured | | 453,093 |
| Bonds, unsecured | (c) | 7,651,767 |
| Total borrowings | | 11,311,964 |

*Notes:*

(a) The Group's secured bank loans as at 30 June 2007 were secured by the following:

 (i) a pledge of the 22.5% participating interest in Portland Aluminium Smelter joint venture;

 (ii) certain of the Group's property, plant and equipment with net book value of HK$56,910,000, prepaid land lease premiums of HK$3,990,000, mining rights of HK$118,029,000 and a guarantee provided by a minority shareholder.

(b) Certain of the Group's unsecured bank loans as at 30 June 2007 were guaranteed by a corporate guarantee executed by CITIC Resources Australia Pty Limited.

(c) The bonds represented US$1,000,000,000 6.75% senior notes due 2014 issued by the Group on 17 May 2007, which are fully and unconditionally guaranteed by the Company.

**Disclaimer**

Save as aforesaid or as otherwise mentioned herein and the litigation as detailed in the section headed "Litigation" in Appendix IV to this circular, and apart from intra-group liabilities, none of the companies in the Group had, at the close of business on 30 June 2007, any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other contingent liabilities.

Save as aforesaid, the directors of the Company have confirmed that there have been no other material changes in the indebtedness and contingent liabilities of the Group since 30 June 2007.

**Foreign currency transactions**

Foreign currency amounts have, for the purpose of this indebtedness statement, been translated into Hong Kong dollars at the applicable rate of exchange ruling at the close of business on 30 June 2007.

## (D) WORKING CAPITAL

The Directors are of the opinion that after taking into account the existing financing available to the Group, the working capital requirements and the expected cash flows of the Group, the Group will, following the completion of the Acquisition, have sufficient working capital for its present requirements for the next 12 months from the date of this circular in the absence of unforeseen material circumstances.

## (E) MANAGEMENTS DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS OF THE GROUP

### 1. BUSINESS REVIEW

**(for the year ended 31 December 2004)**

During the year, the Group took the first steps in expanding its business focus and diversifying from its previous narrow base in the plywood industry. The Directors adopted a business strategy to diversify the Group's activities and position the Group as an integrated provider of key energy resources and commodities of which the PRC is a net importer, involved in upstream operations to mid-stream processing and downstream distribution.

The Company acquired the entire issued share capital of CITIC Resources Australia Pty Limited ("**CRA**") in consideration of the allotment and issue of 750,413,793 new shares in the capital of the Company. CRA and its subsidiaries (collectively referred to as the "**CRA Group**"), reported a turnover and net operating profit of HK$3,574.9 million and HK$146.0 million respectively for the nine months ended 31 December 2004.

The Company acquired the entire issued share capital of Richfirst Holdings Limited ("**Richfirst**") which gave the Group a 40% participating interest in the development and production of petroleum in the Kongnan Block within the Dagang Oilfield in the PRC. The performance was taken into the Group's financial results and Richfirst reported a turnover and net operating profit of HK$24.4 million and HK$7.7 million respectively for the six months ended 31 December 2004.

The Directors expect the PRC's rapid industrialisation to continue to generate significant demand for energy and hard commodities. Despite the normal fluctuations of economic cycles, the PRC's economic growth is likely to remain high in comparison to the steadier but lower rates typical of more mature economies.

During the year, the principal activities of the CCPL Group (as defined in the circular of the Company dated 12 June 2007) remained as the development and production of oil with the right to explore, develop and produce oil in the Karazhanbas oilfield in the Republic of Kazakhstan until 2020. The total volume of oil produced and exported of the CCPL Group was 15.5 million barrels. The revenue after payment of royalties and settlement of hedge loss was HK$3,293.1 million and the net profit attributable to shareholders was HK$46.5 million.

During the year, the principal activities of Macarthur Coal were coal exploration, project evaluation and development, and coal mining. All coal was predominately exported to Asia, Europe and the Americas. The revenue was HK$1,760.9 million and the net profit attributable to shareholders was HK$213.3 million.

**(for the year ended 31 December 2005)**

During the year, the principal activities of the Group continued to be an integrated provider of key natural resources and commodities. Global demand for natural resources and commodities remained high in 2005. The performance of the aluminium smelting, coal mining and import and export of commodities businesses and interests, were together the principal contributors and formed the basis for the positive performance in 2005. The respective business lines have benefited from increasing sales volumes and higher prices.

The increase in turnover of the CRA Group from HK$3,574.9 million in 2004 to HK$5,708.5 million in 2005 was principally driven by the strong performance of the import and export of commodities and its full year's contribution in 2005 rather than 9 months' in 2004. The increase in revenue reflects higher market prices of alumina and steel products, and also CRA Group began exports of iron ore during the year. The increase in net operating profit of the CRA Group from HK$146.0 million in 2004 to HK$433.8 million in 2005 was principally attributable to an increase in the market price of aluminium and alumina in 2005. CRA Group also made a significant gain on disposal of exploration tenements.

During the year, Richfirst reported a turnover and net operating loss of HK$77.4 million and HK$6.6 million respectively. In the fourth quarter of the year, drilling was temporarily suspended to allow for detailed evaluation of well productivity and production decline performance. As at the end of the year, the independent engineering evaluators had revised downward their estimate of the proved reserves. Since depletion was provided on the substantial capitalised development costs incurred during the year, Richfirst made a loss as a result.

During the year, there was no change to the principal activities of the CCPL Group. Revenue after payment of royalties increased from HK$3,293.1 million in 2004 to HK$5,107.5 million in 2005. The net operating profit increased from HK$46.5 million in 2004 to HK$1,196.1 million in 2005. This increase was primarily due to increases in international oil prices, as evidenced by the increase in the average benchmark end-market quote for Urals Mediterranean of US$34.5 and Dated Brent of US$38.3 per barrel in 2004 to US$50.9 for Urals Mediterranean and US$54.5 for Dated Brent per barrel in 2005. However, the increase in revenue was offset in part by a decrease in sales volume of oil produced in the Karazhanbas oilfield from 15.5 million barrels in 2004 to 14.8 million barrels in 2005, which was mainly attributable to the fact that the temperature in the winter of 2005 reached unusually low levels, which affected production.

During the year, there was no change in the principal activities of Macarthur Coal. Macarthur Coal continued to involve in coal exploration, project evaluation and development, and coal mining. The revenue was HK$2,787.8 million and the net profit attributable to shareholders was HK$689.4 million.

**(for the year ended 31 December 2006)**

The principal activities of the Group remained as an integrated provider of key natural resources and there were a number of encouraging initiatives and developments during the year. The Group achieved a satisfactory financial performance for the year. The businesses and interests in Australia continue to be the principal contributors and formed the basis for the satisfactory results of the Group in 2006. The manganese business made a positive contribution to the profits of the Group since the second quarter of the year when the Group completed the acquisition of such business.

The CRA Group reported a turnover of HK$6,951.8 million in 2006. The increase in revenue was driven by higher selling prices and the appreciation of the Australian dollars. The decrease in net operating profit from HK$433.8 million in 2005 to HK$296.1 million in 2006 was mainly caused by the loss arising from the revaluation of the embedded derivatives and the hedge loss. Underlying operations performed strongly during the year.

During the year, the formation of a sino-foreign equity joint venture to undertake the business of manganese mining and processing was completed. The newly established joint venture company, namely, CITIC Dameng Mining Industries Limited (the "**Manganese Company**"), became a non-wholly-owned subsidiary of the Group. As the Company has a controlling interest in the Manganese Company, the financial results of the Manganese Company were consolidated into the accounts of the Group as from the second quarter of the year.

The Manganese Company recorded a turnover of HK$538.0 million and net operating profit of HK$65.8 million in 2006. The PRC's economic growth has increased significantly the domestic demand for virtually all raw materials creating significant opportunities in the broader commodities and energy sector. The Manganese Company has made a positive contribution to overall profit of the Group.

During the year, the Group exercised its option to convert its 40% participating interest in the Kongnan Block within the Dagang Oilfield in the PRC into common shares in the share capital of Ivanhoe Energy Inc., ("**Ivanhoe**") and a loan repayable by Ivanhoe.

During the year, CITIC Seram Energy Limited ("**CITIC Seram**"), an indirect wholly-owned subsidiary of the Group, concluded the acquisition of a 51% participating interest in the production sharing contract relating to the Seram Island Non-Bula Block, Indonesia (the "**Seram Block**"). CITIC Seram also became the operator responsible for managing and operating exploration and development at the Seram Block which marks a change in the Group's strategy for oil investments from passive holdings to an involvement. In 2006, the average production of oil from the principal field, the Oseil Field, at Seram Block was above 4,700 barrels per day. From the completion date of the acquisition to the end of the year, no sales were recorded.

During the year, there was no change to the principal activities of the CCPL Group. Revenue after payment of royalties increased from HK$5,107.5 million in 2005 to HK$6,377.8 million in 2006. The net operating profit was HK$1,407.7 million, an increase of 17.7% over 2005. This increase was primarily due to increases in international oil prices, as evidenced by the increase in the average benchmark end-market quote for Urals Mediterranean of US$50.9 and Dated Brent of US$54.5 per barrel in 2005 to US$61.4 for Urals Mediterranean and US$65.1 for Dated Brent per barrel in 2006. This increase was also attributable to the increase in the sales volume of oil produced in the Karazhanbas oilfield from 14.8 million barrels in 2005 to 15.6 million barrels in 2006. The increase in sales volume was mainly a result of the increase in the number of wells drilled in the Karazhanbas oilfield in 2006 and the fact that the temperature in the winter of 2006 did not reach the same extremely low levels that it had in 2005, which had affected production in 2005.

During the year, there was no change in the principal activities of Macarthur Coal. Macarthur coal continue to involve in coal exploration, project evaluation and development, and coal mining. The revenue was HK$2,921.6 million and the net profit attributable to shareholders was HK$678.0 million.

## 2. PROSPECTS

The Company's strategy is to position the Group as an integrated provider of key energy and natural resources and commodities and to establish a unified business platform ranging from production to delivery of commodities and resources of which the PRC is a net importer - from upstream operations to mid-stream processing to distribution of the final products. Currently, the Group has interests in aluminum smelting, coal mining, import and export of commodities, manganese mining and processing, and oil.

The Group plans to increase its oil production capacity through development of existing interests and through acquisitions. In April 2007, the Company agreed to acquire 50% of CITIC Group's interest in the oil and oil related businesses and activities in Kazakhstan including, but not limited to, the development and production of oil in the Karazhanbas oilfield in Kazakhstan carried on by JSC Karazhanbasmunai, Argymak TransService LLP and Tulpar Munai Services LLP (the "**Kazakhstan Assets**") through the acquisition of the entire issued share capital of Renowned Nation Limited. The acquisition of the Kazakhstan Assets will enable the Group to become one of the largest PRC controlled listed oil producers active in overseas oil production and is, over the coming two years, expected to begin to improve the net cash flows of the Group. There will however be an associated increase in the Group's capital commitments and operating costs.

Further, in May 2007, the Company was granted an option to acquire an effective 90% interest in the contractor's rights and obligations in the Hainan-Yuedong Block (the "**Hainan-Yuedong Block**") in Bohai Bay Basin in Liaoning Province in the PRC (the "**Hainan-Yuedong Interest**"). The Company is conducting a due diligence review of the Hainan-Yuedong Block. If the results of the due diligence review prove satisfactory and the Hainan-Yuedong Interest can be successfully acquired, the Group's overall oil interests will be further enhanced as a result. However, the Hainan-Yuedong Block project is currently in the appraisal and development stage, there will not be an immediate contribution to the Group's revenue from this project. Capital expenditure and operating expenses associated with the development of the Hainan-Yuedong Block would add to the Group's overall capital commitments and operating costs and will likely cause a decrease in net cash flows of the Group until production is commenced.

Coal remains an important part of the Group's business strategy to be an integrated provider of key energy and natural resources and commodities and the Group will enhance its existing interests if appropriate opportunities should arise in the future.

The Group is financially sound and well-positioned to implement and support its business strategy. It has a strong cash position and it is able to leverage on the support of its major Shareholders. As the business develops, the strategy is to target overseas markets and build up the Group as a strategic platform for energy, natural resources and commodities in the region.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular by the Directors have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement contained herein misleading.

The issue of this circular has been approved by the Directors.

## 2. FURTHER INFORMATION ABOUT THE COMPANY

The Company was incorporated in Bermuda on 18 July 1997. Its registered office is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its head office and principal place of business is at Suites 3001-3006, 30/F, One Pacific Place, 88 Queensway, Hong Kong.

**Share Capital:**

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

*Authorised Share Capital:*

HK$500,000,000 divided into 10,000,000,000 Shares

*Share Capital issued as fully paid:*

HK$262,834,219.05 divided into 5,256,684,381 Shares as at the Latest Practicable Date.

Note: All of the existing issued Shares rank pari passu in all respects including as to, amongst other things, dividends, voting and interests in capital.

## 3. DISCLOSURE OF INTERESTS

### (a) Disclosure of interests of Directors

As at the Latest Practicable Date, the interests of the Directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") and which have been notified to the Company and the Stock Exchange were as follows:

***Interests in the Shares and underlying Shares***

| Name of Director | Nature of interest | Number of Shares held | Interests in underlying Shares pursuant to share options | Percentage of the total issued share capital of the Company |
|---|---|---|---|---|
| Mr. Kong Dan | Directly beneficially owned | — | 20,000,000 | 0.38 |
| Mr. Mi Zengxin | Directly beneficially owned | — | 10,000,000 | 0.19 |
| Mr. Shou Xuancheng | Directly beneficially owned | 10,000,000 | — | 0.19 |
| Mr. Sun Xinguo | Directly beneficially owned | 10,000,000 | — | 0.19 |
| Ms. Li So Mui | Directly beneficially owned | 1,000,000 | 4,000,000 | 0.10 |
| Mr. Qiu Yiyong | Directly beneficially owned | 10,000,000 | — | 0.19 |
| Mr. Zeng Chen | Directly beneficially owned | — | 10,000,000 | 0.19 |
| Mr. Zhang Jijing | Family | 28,000 (1) | — | — |
| Mr. Zhang Jijing | Directly beneficially owned | — | 10,000,000 | 0.19 |
| Mr. Ma Ting Hung | Corporate | 271,966,000 (2) | — | 5.17 |
| Mr. Ma Ting Hung | Directly beneficially owned | 50,000,000 | — | 0.95 |

Notes:

(1) The Shares disclosed above are held by the spouse of Mr. Zhang Jijing. Accordingly, Mr. Zhang Jijing is deemed to be interested in the 28,000 Shares.

(2) The Shares disclosed above are held by United Star International Inc., a company incorporated in British Virgin Islands, which is beneficially owned as to 50% by Mr. Ma Ting Hung. Accordingly, he is deemed to be interested in the 271,966,000 Shares.

***Interests in the ordinary shares and underlying shares of an associated corporation of the Company***

| Name of Director | Name of associated corporation | Relationship with the Company | Shares/ equity derivatives | Number of shares/ equity derivatives held | Nature of interest | Percentage of the total issued share capital of the associated corporation |
|---|---|---|---|---|---|---|
| Mr. Kong Dan | CITIC International Financial Holdings Limited | Associated corporation | Share options | 4,800,000 | Directly beneficially owned | 0.08 |
| Mr. Zeng Chen | CITIC Australia Trading Limited | Subsidiary | Ordinary shares | 385,402[(1)] | Family | 0.45 |

Note:

(1) The shares disclosed above are held by the spouse of Mr. Zeng Chen. Accordingly, Mr. Zeng Chen is deemed to be interested in the 385,402 shares.

Save as disclosed herein and so far as is known to the Directors, as at the Latest Practicable Date:

(i) none of the Directors or chief executive of the Company had an interest or a short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange;

(ii) none of the Directors was a director or employee of a company which has an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO;

(iii) none of the Directors or their respective associates was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group taken as a whole; and

(iv) none of the Directors or their respective associates had any interest in a business apart from the businesses of the Group which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

**(b) Disclosure of interests of substantial Shareholders and other persons' interests in the Shares and underlying Shares**

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons or entities who had an interest in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

| Name of Shareholder | Nature of interest | Number of Shares held | Percentage of the total issued share capital of the Company |
|---|---|---|---|
| CITIC Group | Corporate | 2,740,594,381 (1) | 52.14 |
| CITIC Projects Management (HK) Limited | Corporate | 1,990,180,588 (2) | 37.86 |
| Keentech Group Limited | Corporate | 1,990,180,588 (3) | 37.86 |
| CITIC Australia Pty Limited | Corporate | 750,413,793 (4) | 14.28 |
| Temasek Holdings (Private) Limited | Corporate | 587,450,000 (5) | 11.18 |
| Temasek Capital (Private) Limited | Corporate | 385,450,000 (6) | 7.33 |
| Seletar Investments Pte. Ltd. | Corporate | 385,450,000 (7) | 7.33 |
| Baytree Investments (Mauritius) Pte. Ltd. | Corporate | 385,450,000 (8) | 7.33 |
| Tembusu Capital Pte. Ltd. | Corporate | 202,000,000 (9) | 3.85 |
| Bartley Investments Pte. Ltd. | Corporate | 202,000,000 (10) | 3.85 |
| Ellington Investments Pte. Ltd. | Corporate | 202,000,000 (11) | 3.85 |
| United Star International Inc. | Corporate | 271,966,000 (12) | 5.17 |
| Mr. Ma Ting Hung | Corporate | 271,966,000 (12) | 5.17 |
| Mr. Ma Ting Hung | Directly beneficially owned | 50,000,000 (13) | 0.95 |

Notes:

(1) This figure represents an attributable interest of CITIC Group through its interest in CITIC Projects Management (HK) Limited ("**CITIC Projects**") and CITIC Australia Pty Limited ("**CA**").

(2) This figure represents an attributable interest of CITIC Projects through its interest in Keentech Group Limited ("**Keentech**"). CITIC Projects, a company incorporated in British Virgin Islands, is a direct wholly-owned subsidiary of CITIC Group.

(3) Keentech, a company incorporated in British Virgin Islands, is a direct wholly-owned subsidiary of CITIC Projects.

(4) CA, a company incorporated in Australia, is a direct wholly-owned subsidiary of CITIC Group.

(5) This figure represents an attributable interest of Temasek Holdings (Private) Limited ("**Temasek Holdings**") through its interest in Temasek Capital (Private) Limited ("**Temasek Capital**") and Tembusu Capital Pte. Ltd. ("**Tembusu**"). Temasek Holdings is a company incorporated in Singapore.

(6) This figure represents an attributable interest of Temasek Capital through its interest in Seletar Investments Pte. Ltd. ("**Seletar**"). Temasek Capital, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Temasek Holdings.

(7) This figure represents an attributable interest of Seletar through its interest in Baytree Investments (Mauritius) Pte. Ltd. ("**Baytree**"). Seletar, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Temasek Capital.

(8) Baytree, a company incorporated in Mauritius, is a direct wholly-owned subsidiary of Seletar.

(9) This figure represents an attributable interest of Tembusu through its interest in Bartley Investments Pte. Ltd. ("**Bartley**"). Tembusu, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Temasek Holdings.

(10) This figure represents an attributable interest of Barley through its interest in Ellington Investments Pte. Ltd. ("**Ellington**"). Bartley, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Tembusu.

(11) Ellington, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Bartley.

(12) This figure represents an attributable interest of Mr. Ma Ting Hung as the beneficial owner of 50% of United Star International Inc. This interest is also included as corporate interest of Mr. Ma Ting Hung, as disclosed under the heading "Disclosure of interests of Directors" above.

(13) The Shares held by Mr. Ma Ting Hung are his personal interests.

**(c) Disclosure of substantial shareholding in other members of the Group**

| Name of shareholder | Name of subsidiary | Percentage of issue share capital |
|---|---|---|
| CITIC United Asia Investments Limited [1] | CITIC Dameng Holdings Limited | 20 |

Note:

(1) CITIC United Asia Investments Limited, a company incorporated in Hong Kong, is an indirect wholly-owned subsidiary of CITIC Group.

Save as disclosed herein and so far as is known to the Directors, as at the Latest Practicable Date, no person had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or no person was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital.

## 4. LITIGATION

Save as disclosed below and so far as is known to the Directors, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries:

(a) In January 1999, Dongguan Xinlian Wood Products Company Limited ("**Dongguan Xinlian**"), a wholly-owned subsidiary of the Company held through Wing Lam (International) Timber Limited ("**Wing Lam**"), received a writ of summons (the "**Claim**") from China Foreign Trade Development Company (the "**Plaintiff**") claiming US$6,362,000 (HK$49,624,000) and related interest in respect of six re-export contracts purported to have been entered into by Dongguan Xinlian prior to it becoming a Group subsidiary. A judgment (the "**First Judgment**") was issued by the Shenzhen Intermediate People's Court in February 2000 against Dongguan Xinlian for a sum of US$3,448,000 (HK$26,894,000). In response, Dongguan Xinlian filed an appeal against the First Judgment with the People's High Court of Guangdong Province.

In August 2003, certain members of the Plaintiff management team were sentenced to imprisonment for creating forged documents, including those presented by them in relation to the Claim. Despite this, the People's High Court of Guangdong Province issued a judgment (the "**Second Judgment**") in December 2003 against Dongguan Xinlian for US$4,800,000 (HK$37,440,000) with related interest. In January 2004, Dongguan Xinlian filed another appeal to the State Supreme Court requesting the withdrawal of the Second Judgment and a decision that Dongguan Xinlian is not liable to the Plaintiff in respect of the Second Judgment. In December 2004, the People's High Court of Guangdong Province overturned the Second Judgment and issued a decision that it will re-hear the case.

In December 2005, the People's High Court of Guangdong Province issued a judgment whereby the validity of the Second Judgment against Dongguan Xinlian was maintained (the "**Third Judgment**"). As advised by the Group's legal advisers, there were a number of conflicts and discrepancies with regard to the Second Judgment and the Third Judgment. The Second Judgment and the Third Judgment were not supported by valid evidence and although the People's High Court of Guangdong Province acknowledged the criminal liabilities of certain members of the Plaintiff's management team (including forging the contracts connected to the Claim), the People's High Court of Guangdong Province did not, contrary to normal legal procedures, take these factors into account when it gave the Third Judgment. In February 2006, Dongguan Xinlian commenced an appeal process against the Third Judgment. In the meantime, the Shenzhen Intermediate People's Court has frozen the assets and machinery of Dongguan Xinlian and the Group has also taken steps to apply for a suspension of the auction of the assets and machinery of Dongguan Xinlian.

The ex-shareholders of Wing Lam (the "**Ex-shareholders**") have given an undertaking to indemnify the Group against all monetary losses that may arise from the Claim up to HK$11,862,000, being the outstanding other loans from the Ex-shareholders as at 30 June 2007. In light of the indemnity from the Ex-shareholders and the advice of the Group's legal advisers, the Directors believe that the outcome of the Claim will not have a material adverse impact on the financial results of the Group.

(b) The Group has a 7% participating interest in the unified unincorporated co-operative Coppabella and Moorvale coal mines joint venture, the manager and agent of which is Macarthur Coal (C&M Management) Pty Limited (the "**Manager**"). Roche Mining Pty Limited (the "**Contractor**") is contracted to mine coal and overburden at the Coppabella mine for a five year term which commenced on 1 July 2003.

In December 2003, the Manager lodged a notice of dispute with the Contractor under the terms of the mining contract. The claim included recovery of loss and damages for higher production costs and demurrage resulting from a failure of the Contractor to deliver coal in accordance with the contract provisions. Subsequently, the Manager received a series of claims from the Contractor as follows:

(i) Related to the 2004 financial year

In June 2004, following rejection by the superintendent of claims from the Contractor, the Contractor lodged a notice of dispute on the Manager under the mining contract. The rejected claim, consisting of nine heads of claim, included higher costs of mining in the 2004 financial year due to alleged delay in access to particular mining areas and alleged adverse mining conditions. The Contractor then referred the dispute to arbitration.

(ii) Related to the 2005 financial year

In February 2005, the arbitrator determined that seven of the nine points of claim could proceed to arbitration. The Manager received the detailed points of claim from the Contractor in March 2005 and detailed further particulars in September 2005. In April 2006, the Manager lodged its defence to the points of claim and lodged a counterclaim against the Contractor.

In July 2005, the Contractor lodged a further notice of dispute in relation to alleged additional costs resulting from the superintendent's approval of the 2005 financial year mine plan. The claims were rejected by the superintendent and the subsequent dispute was referred to arbitration in August 2005.

In April 2006, the Contractor lodged a consolidated and further amended points of claim in relation to both the 2004 financial year claim and the 2005 financial year claim. In October 2006, the Manager lodged its defence to the consolidated claim.

(iii) Related to the 2006 financial year

In January 2006, the Contractor lodged a further notice of claim in relation to alleged additional costs resulting from the superintendent's approval of the 2006 financial year mine plan. However, the Contractor has not provided to the superintendent the requested details of the nature and quantum of this claim.

The total value of the three claims noted above for financial years 2004, 2005 and 2006 is in the order of A$100 million (HK$617 million) out of which the Group's share amounted to A$7 million (HK$43 million). Areas of duplication have been identified across these three claims and the Contractor is yet to provide particulars regarding basis and quantum of the third claim.

The Manager disputes the above claims and will vigorously defend its position in arbitration. The arbitrator has set a date to hear the consolidated 2004 and 2005 financial year claims in June 2007. However, there is no set date for hearing of the consolidated 2006 financial year claim.

In the Directors' opinion, disclosure of any further information about the above matter would be prejudicial to the interests of the Manager and the joint venture participants of the Coppabella and Moorvale coal mines joint venture.

## 5. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up.

## 6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

## 7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

(i) the conversion agreement dated 18 February 2006 between Ivanhoe Energy Inc., Pan-China Resources Ltd., Sunwing Energy Ltd. and Richfirst Holdings Limited relating to the conversion of 40% participating interest in the Kongnan Block within the Dagang Oilfield in the PRC into common shares in the share capital of Ivanhoe Energy Inc. and a loan repayable by Ivanhoe Energy Inc.;

(ii) the sale and purchase agreement dated 11 July 2006 between KUFPEC (Indonesia) Limited and CITIC Seram Energy Limited relating to the sale and purchase of the 51% participating interest in the Seram Island Non-Bula Block production sharing contract;

(iii) the placing and subscription agreement dated 9 February 2007 among USI, the Company, Citigroup Global Markets Asia Limited and UBS AG in respect of the placing of 570,000,000 Shares by USI and the conditional top-up subscription by USI for 570,000,000 Shares;

(iv) the subscription agreement dated 9 February 2007 between Keentech and the Company in respect of the subscription by Keentech for 130,000,000 Shares;

(v) the sale and purchase agreement dated 30 April 2007 between CITIC Group and the Company in respect of, amongst other things, the entire issued share capital of Renowned Nation Limited;

(vi) sale and purchase agreement dated 30 April 2007 between CITIC Group and the Company in respect of the benefit of certain indebtedness of KBM Energy Limited;

(vii) an option agreement dated 1 May 2007 between Far Great Investments Limited, CITIC Haiyue Energy Limited and certain shareholders of Far Great Investments Limited pursuant to which CITIC Haiyue Energy Limited has the right to acquire 90% of the issued shares of Tincy Group Energy Resources Limited;

(viii) a loan agreement dated 1 May 2007 between CITIC Haiyue Energy Limited, Far Great Investments Limited and Tincy Group Energy Resources Limited;

(ix) an on-loan agreement dated 1 May 2007 between Far Great Investments Limited, Tincy Group Energy Resources Limited and CITIC Haiyue Energy Limited;

(x) a pledge and further security dated 1 May 2007 between Far Great Investments Limited and CITIC Haiyue Energy Limited;

(xi) a debenture dated 1 May 2007 between Far Great Investments Limited, Tincy Group Energy Resources Limited and CITIC Haiyue Energy Limited;

(xii) a charge over account dated 21 May 2007 between Far Great Investments Limited and CITIC Haiyue Energy Limited;

(xiii) a charge over account dated 21 May 2007 between Tincy Group Energy Resources Limited and CITIC Haiyue Energy Limited;

(xiv) a guarantee dated 26 May 2007 by Lu Shi Tao in favour of CITIC Haiyue Energy Limited;

(xv) a purchase agreement dated 14 May 2007 between CITIC Resources Finance (2007) Limited, Bear, Stearns & Co. Inc., Morgan Stanley & Co. International plc and the Company relating to the issue of US$1,000,000,000 6.75% senior notes due 2014;

(xvi) an escrow agreement dated 17 May 2007 between CITIC Resources Finance (2007) Limited, the Company and Citibank, N.A., London Branch relating to the issue of US$1,000,000,000 6.75% senior notes due 2014;

(xvii) an indenture dated 17 May 2007 between CITIC Resources Finance (2007) Limited, the Company and Citibank, N.A., London Branch relating to the issue of US$1,000,000,000 6.75% senior notes due 2014;

(xviii) a subscription agreement dated 15 June 2007 between the Company and Ellington Investments Pte. Ltd.; and

(xix) the Share Purchase Agreement.

## 8. EXPERTS

The following is the qualification of the expert who has given, or agreed to the inclusion of, its opinion or advice in this circular: App1B

| Name | Qualification |
| --- | --- |
| Ernst & Young | certified public accountants |

Ernst & Young has confirmed that it has no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Ernst & Young has given and has not withdrawn its written consent to the issue of this circular with the inclusion of their respective letters and reports and/or reference to its name, as the case may be, in the form and context in which they respectively appear.

## 9. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors or Ernst & Young had any interest, direct or indirect, in any asset which has been since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

## 10. MISCELLANEOUS

(a) The share registrar and transfer office of the Company is Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(b) The secretary of the Company is Ms. Li So Mui. She holds a Master's Degree in Business Administration and is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Association of International Accountants. Ms. Li has over 29 years' experience in the accounting and banking field.

(c) The qualified accountant of the Company is Mr. Chung Ka Fai, Alan. He is an associate member of the Australian Society of Certified Practising Accountants. Prior to joining the Company, he worked for various multinational companies. Mr. Chung has over 16 years' experience in the accounting field.

(d) All references to times and dates in this circular refer to Hong Kong times and dates.

(e) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

(f) Macarthur Coal produces its financial statements in the English language only. Any non-English language translation of these financial statements has been translated by a third party for use as a reference only in predominantly non-English speaking countries. Macarthur Coal does not accept any responsibility or liability for any inconsistencies between the English language version and the non-English version of their financial statements.

The extracts of the financial statements of Macarthur Coal included in this circular are reproductions prepared by a third party and Macarthur Coal does not accept any responsibility or liability for any inconsistencies between the reproduced version contained in this circular and the final published financial statements that can be found on the website of Macarthur Coal and that have been lodged with the ASX.

## 11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the offices of the Company at Suites 3001-3006, 30/F One Pacific Place, 88 Queensway, Hong Kong for the period of 14 days from the date of this circular:

(a) the memorandum of association of the Company and the Bye-laws;

(b) the report prepared by Ernst & Young in connection with the pro forma financial information on the Group, the text of which is set out in Appendix III to this circular.

(c) the annual reports of the Company for the years ended 31 December 2005 and 2006;

(d) the material contracts referred to under the section headed "Material Contracts" above;

(e) the consent letter of Ernst & Young referred to under the section headed "Experts"above; and

(f) the circulars of the Company dated 5 March 2007, 7 May 2007 and 12 June 2007 respectively.