



## Mount Gibson Iron Limited

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Level 10, 20 Bond Street  
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### **SUBJECT: ASIA IRON HOLDINGS LIMITED**

Mr Brian Johnson, Managing Director of Mount Gibson Iron Limited, announced today that the Company will sell its 5.825 million shares (54% holding) in Asia Iron Pty Ltd (AIPL) to Hong Kong based Asia Iron Holdings Limited for A\$7.5 million which will be paid by the issue of shares in Asia Iron Holdings Limited.

The shares in AIPL, which owns the Mt Gibson magnetite deposits in the MidWest region of Western Australia, will be sold at their issue price of 20 cents each (\$1,200,000) and the Company will be reimbursed \$6,300,000 for costs in excess of this amount incurred over the past six years on related acquisitions, exploration, metallurgical test work, and predevelopment expenses associated with these deposits.

The Company will also receive 25 cents per tonne (indexed to CPI increases) for any magnetite concentrate produced from the Mt Gibson deposits. Rights to all technical information will transfer to Asia Iron Holdings Limited but in the event mining of the magnetite resources does not commence by 31 December 2009, Mount Gibson Iron will have a six month option to repurchase the deposits and technical information from Asia Iron Holdings at their cost to that date.

The Company will retain the right to mine all hematite occurring on leases held now or in the future by Asia Iron Holdings in Western Australia, and to receive fees for managing its magnetite operations.

The Company will be issued 45 million shares at HK\$1.00 each in Asia Iron Holdings as payment for the proposed transaction, which will require shareholder approval. The proposed shareholding will represent 30% of Asia Iron Holdings' foundation capital of HK \$150 million.

A major Chinese conglomerate has formally committed to also taking up a 30% shareholding in Asia Iron Holdings alongside Mount Gibson Iron, subject to Government approvals which are expected within 60 days. The balance of Asia Iron Holdings' foundation capital has been raised from a number of private and corporate investors.

Asia Iron Holdings is currently negotiating a joint venture with the Nanjing Iron & Steel Group, a major steel producer listed on the Shanghai Stock Exchange, to develop two 2.5 Mtpa iron pellet plants at Longtan on the Yangtze River near Nanjing.

The joint venture will also develop two mines in the MidWest region to produce a total of 5 Mtpa of magnetite concentrate as feed for the Longtan pellet plants.

Mount Gibson Iron will be appointed as Manager for the two mines, the first of which is planned to be developed at Asia Iron Holdings' Koolanooka property, with commissioning expected in September 2006.

The second mine at Wolla Wolla is proposed to be in production twelve months later to co-incide with the commissioning of the second pellet plant at Longtan.

Mr Johnson said the Company's rationale for selling its interest in the magnetite deposit at Mt Gibson and investing in Asia Iron Holdings was that Directors believed that despite increasing demand for magnetite concentrate as feed for the production of iron pellets and sinter, production and sale of concentrate in its raw form from Mt Gibson would not be economic because of high transport costs and port charges, without vertical integration to the end user of the pellets.

Pelletising in Western Australia was also not an option where capital costs for the production of 5 Mtpa of pellets would be over US\$250 million compared with approximately US\$75 million in China.

The Company has been involved in conceptualising the formation of Asia Iron Holdings. Its plan to produce pellets in a major steelmaking region 450km up the Yangtze River means that it will be able to ship concentrate directly from Geraldton to the river port of Longtan and avoid expensive transshipment and barging costs incurred by competitors importing pellets or pellet feed from Brazil.

With Asia Iron Holdings producing its own concentrate in Western Australia and benefiting from long term regular point to point ship chartering, and low capital and operating costs in China, its economic model for pellet production is extremely robust.

Nanjing Iron & Steel will purchase 50% of the joint venture's pellet production for 20 years at arms length international prices (valued at around US\$4.0 billion at current prices). The balance of production will be sold to third parties with priority to Asia Iron Holding's shareholders. The 30% Chinese shareholder in Asia Iron Holdings has committed to purchase approximately 25% of the joint venture's annual production for 20 years.

Asia Iron Holdings expects to undertake an IPO and listing on the London AIM market in the second half of 2005 to raise the equity it will require for its share of the development costs for the first pellet plant and magnetite mine.

Mount Gibson Iron and the Chinese shareholder intend to maintain their 30% shareholdings in Asia Iron Holdings. The Company expects to be able to fund its additional investment from share option conversions in October 2005 and internal resources.

Mr Johnson said that the Company's first phase of development for production of direct shipping grade hematite was settling into a pattern after early problems with rail and port services associated with its Talling Peak mine.

The Company is on schedule to ship 450,000 tonnes of iron ore this quarter and is confident of ramping up production from 1.8Mtpa to 2.1Mtpa in January 2005, based on assurances of extra rail wagon availability from the Australian Railroad Group.

The second phase of the Company's development will now involve the indirect interest in pellet production in China and the securing of long term management fees associated with the production of magnetite concentrate in Western Australia.

Direct benefits from this phase of the Company's progress should commence in two years, and the balance sheet should be significantly strengthened in the second half of 2005 on completion of Asia Iron Holding's IPO, as a consequence of the premium expected on the issue price of its shares at that time.

A diagram of the Groups' proposed corporate structure is attached.

Yours sincerely

MOUNT GIBSON IRON LIMITED



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## PROPOSED CORPORATE STRUCTURE

