



# Mount Gibson Iron Limited

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## **ASIA IRON SHAREHOLDING SOLD TO SHOUGANG FOR \$52.5M**

Mount Gibson Iron Limited ("MGI") (ASX Code: MGX) advises that it has signed an agreement with China's third largest steel producer, the Shougang Group, for the sale of MGI and Mount Gibson Mining Limited's entire 73% interest in Asia Iron Holdings Limited ("Asia Iron") for \$52.5 million.

MGI managing director Luke Tonkin said "This is a mutually beneficial transaction for Shougang and MGI. Shougang will acquire a controlling shareholding of a strategic iron ore asset, the Extension Hill Magnetite Project in the Mid West region of Western Australia, providing long term magnetite concentrate feed supply for their steel operations in China."

"MGI retains ownership and control of the hematite resource at Extension Hill, and could use the proceeds of the sale of its interest in Asia Iron to develop the 2-3 Mtpa hematite mining operation at Extension Hill, which will generate significant free cashflow without raising any debt or diluting our shareholders."

Mr Tonkin added, "For MGI to have maintained its equity position in the Extension Hill Magnetite Project and finance its share of the escalating capital costs, we would have needed to raise equity funding in excess of \$175 million and exposed the Company to unacceptably high levels of debt. Such a raising would have had a significant dilutionary effect on current shareholders and postponed dividend payments for many years. In addition, it is unlikely that Asia Iron would be able to enter into fixed price pellet off-take agreements resulting in the project revenue streams total reliance on annual iron ore price negotiations."

The agreement is subject to FIRB approval and the minority shareholders in Asia Iron not exercising an option to match the Shougang offer. Minority shareholders will have 28 days to exercise an option to match the Shougang offer.

The proceeds of sale will be held in escrow until environmental approval by the WA government. A decision on environmental approval is anticipated by the end of 2006. If environmental approval is not obtained by 30 November 2007, Shougang may terminate the agreement and the sale shares will be returned.

