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**SUBJECT: MOUNT GIBSON IRON'S REVISED COMMERCIAL ARRANGEMENTS WITH
ASIA IRON HOLDINGS LIMITED**

Mount Gibson Iron Limited (ASX Code: MGX) has revised its proposed commercial arrangements with Asia Iron Holdings Limited ("Asia Iron"), the Hong Kong based holding company which in joint venture with the Nanjing Iron & Steel Group, proposes to develop two 2.5 Mtpa steel pellet plants in China, and a new magnetite mine at Extension Hill in Western Australia's Mt Gibson ranges.

Asia Iron has recently acquired a 46% minority shareholding in Extension Hill Pty Ltd (formerly Asia Iron Pty Ltd), which holds a number of mining and exploration tenements at Mt Gibson including the 230Mt magnetite resource at Extension Hill which will be developed to supply 5.0Mtpa of magnetite concentrate as feed for the Chinese pellet plants, for at least 20 years.

Mount Gibson Iron Limited ("MGI") will now effect a simple reorganisation of the way in which it holds its interest in the Extension Hill magnetite deposit by transferring its 54% shareholding in Extension Hill Pty Ltd to Asia Iron in exchange for a 54% shareholding in Asia Iron.

MGI will be issued 67.5 million shares by Asia Iron at HK\$1.00 each which is approximately equivalent to the A\$11.0 million cost of MGI's investment in the Extension Hill magnetite project over a period of eight years.

As a result of this transaction, MGI will retain the same effective interest in the Extension Hill deposit as previously, but gain a 54% indirect interest in Asia Iron's wholly owned magnetite deposits at Koolanooka South and Wolla Wolla, which are also located in the Mid West region of Western Australia.

The balance of Asia Iron's shares on issue (57.5 million) were subscribed by Asia Iron's directors and associates between December 2003 and June 2004, at HK\$1.00 per share.

All tenements in the Mt Gibson range held by Extension Hill Pty Ltd and not required for the development of the Extension Hill mine, have been retained by MGI.

As a consequence, the substantial commercial potential of the magnetite and hematite resources occurring along a relatively unexplored 6km strike length of iron mineralisation to the south of the proposed Extension Hill mine remains with MGI. The Company will also benefit from the infrastructure developments necessary to support the Extension Hill mine development.

The Company's wholly owned subsidiary, Mount Gibson Mining Limited, has also gained the right to mine and sell all hematite resources at Extension Hill and at any other tenement held by Asia Iron in Western Australia.

Mount Gibson Mining is negotiating a 20 year contract to manage the operation of the Extension Hill magnetite mine to be developed by Asia Iron and its partners, and will also be engaged to manage any other magnetite mine developed by Asia Iron in Western Australia within the next 10 years.

Mount Gibson Mining will not be required to provide investment or working capital for the Extension Hill mine, and will receive a management fee for each tonne of magnetite concentrate produced, escalated in accordance with increases in the Consumer Price Index (CPI). The base management fee is currently being negotiated with Asia Iron.

Asia Iron and Nanjing Iron & Steel intend to commission both the Extension Hill mine and the first 2.5Mtpa pellet plant at Longtan on the Yangtze River near Nanjing by the end of 2006, and will proceed immediately thereafter with expansion of the mine to produce 5.0Mtpa of magnetite concentrate and construction of the second pellet plant.

Asia Iron will not be disadvantaged by the limited shipping capacity of the Port of Geraldton (60,000 DWT vessels) because the new river port of Longtan, which will be constructed by the Nanjing Government for the pellet project, will only be able to receive 50,000 DWT vessels.

In fact, on a point to point basis, total freight costs will be considerably less from Geraldton to Nanjing than the cost to major producers delivering either concentrate or pellets from Brazil to Nanjing because of their substantially longer shipping distance and the high cost of transshipping materials from the mouth of the Yangtze River 450 km up-river to Nanjing, which is at the centre of a major steelmaking region.

Asia Iron and its partner expect to complete a \$15 million bankable feasibility study of the project in August 2005. The preliminary financial analysis for the first stage of the pellet project is extremely robust and MGI is looking for a strong dividend flow as well as management fees within two to three years.

The Company is confident the project will proceed and sees its controlling shareholding in Asia Iron as an appropriate level of exposure to the secondary processing of its magnetite ore in China, where the capital cost of proven low technology pellet plants is less than one third of their cost in Western Australia.

Yours sincerely
MOUNT GIBSON IRON LIMITED

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