



## Mount Gibson Iron Limited

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### **MOUNT GIBSON IRON TO SUPPLY 10MTPA OF MAGNETITE CONCENTRATE TO CHINA**

Mr Brian Johnson, Managing Director of Mount Gibson Iron Limited ("MGI") announced today that the Company has signed an Agreement to supply up to 10.0 Mtpa of magnetite concentrate to a subsidiary of Hong Kong based Asia Iron Holdings Limited ("Asia Iron") for a minimum of 15 years.

The concentrate will be supplied as feed to four 2.0Mtpa iron pellet plants Asia Iron proposes to develop in China over the next five years. The first plant will be constructed near Nanjing and is expected to be commissioned in the fourth quarter of 2005. Asia Iron also intends to develop a 2.0 Mtpa pellet plant near Geraldton to supply the Middle East and South East Asian markets.

Asia Iron's shareholders include Chinese iron ore trader Sinom (Hong Kong) Limited, which is one of MGI's largest shareholders, and private Chinese investors. It's shareholder base will be expanded in the near term to include three industrial groups involved in iron and steel production in the lower Yangtze River region. These three groups currently import pellets and concentrate from Brazil and India, and have advised they will enter into long term product off-take agreements with Asia Iron.

Pellet consumption in China is growing at a faster rate than iron ore consumption as steel mills utilize increasing proportions of pellets in their blast furnace feed to produce better quality steel and to achieve savings in energy during production of pig iron.

Construction costs for a pellet plant in China are approximately 60% less than the same plant built in Australia or the United States by traditional suppliers. With low capital costs and low operating costs, Asia Iron's production costs are expected to be very competitive with imported pellets.

Asia Iron controls extensive magnetite deposits at Koolanooka, 200km south east of the port of Geraldton in Western Australia and has applied for additional deposits at Wolla Wolla, 180km due east of Geraldton. The Company is also negotiating to acquire additional resources in the Mid West region.

## **MOUNT GIBSON IRON TO SUPPLY 10MTPA OF MAGNETITE CONCENTRATE TO CHINA (Continued)**

MGI and Asia Iron collectively control over one billion tonnes of magnetite in the region and the contract with MGI will ensure stable long term supply of pellet feed for Asia Iron's proposed operations.

MGI will reserve its own magnetite resources in the Mid West region (principally at Mt Gibson) to allow Asia Iron to exercise options to increase its concentrate off-take in 2.0 Mtpa increments up to 10 Mtpa, by December 2008.

The Agreement with Asia Iron calls for MGI to undertake a review of the magnetite deposits controlled by both companies to prioritize the economic and technical viability of each deposit with the aim of completing a preliminary feasibility study for the first stage of concentrate production by the end of May 2004.

In the same period Asia Iron will conduct a feasibility study for the first 2.0 Mtpa pellet plant it proposes to construct adjacent to a new port at Long Tan on the Yangtze River.

Subject to the outcome of the two studies, MGI and Asia Iron will then undertake Bankable Feasibility Studies with the aim of making a decision to proceed with the development of the first stage of their respective projects in the fourth quarter of 2004, with commissioning planned for the end of 2005.

Asia Iron will reimburse MGI's mine development costs over a fifteen year period, together with all operating costs and a proportion of overheads, and pay MGI a management fee of Aus\$8.00 per tonne of concentrate delivered to Geraldton. The fee will be escalated in line with any increase in production costs.

MGI will not be required to accept any currency risk and will effectively act as a mining contractor for Asia Iron on a cost plus fee basis.

To finance MGI's pre-development costs associated with the magnetite project, the Company will issue 10 million of its shares at 20 cents each to Asia Iron immediately, raising \$2.0 million (this share issue does not require shareholder approval). MGI will issue a further 15 million shares to Asia Iron at 20 cents each on 31 March 2004 (subject to shareholder approval). MGI will also issue one free option with each share issued to Asia Iron, which will be exercisable at 25 cents each on or before 31 December 2004.

MGI expects to raise \$11.25 million from the Asia Iron transactions by the end of this year. If Asia Iron takes up a total of 50 million shares under these arrangements it will hold approximately 15% of MGI's capital.

Mr Johnson said that though the Agreement was conditional on both parties giving final commitments to proceed with their respective developments by the end of this year, he was confident they would go ahead and that the arrangements with Asia Iron could result in pre-tax earnings from magnetite operations growing to \$80 million per year over the next five years.

Yours sincerely  
**MOUNT GIBSON IRON LIMITED**



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**Company Secretary**

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